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AEGON Asset Management

Sustainability Snippets

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"The beginning of the end"

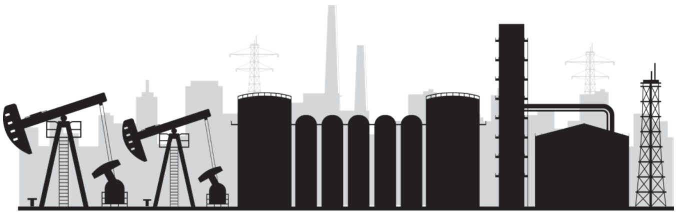
Global demand for oil, natural gas, and coal is expected to peak before the end of 2030.

In recent times, we have witnessed all-time highs in oil and gas prices; however, according to the Chief of the International Energy Agency (IEA), Faith Birol, the world is on the verge of a "historic turning point."

Despite the IEA's projection last year that aggregate fossil fuel demand could peak around 2030, the rapid growth of renewable energy and the widespread adoption of electric vehicles has led the intergovernmental body to revise its projections. They now anticipate that global demand for oil, natural gas, and coal will peak before the end of 2030. This is the first-time demand for each fuel has shown a peak within this decade—earlier than anticipated by many.

The most significant impact seems to be emanating from China, which is undergoing "structural shifts" in its economy as it moves away from heavy industry towards less energy-intensive industries and services. Birol stated, "In the last 10 years, China accounted for approximately one-third of the global growth in natural gas demand and two-thirds of the growth in oil demand. Solar, wind, and nuclear power will increasingly replace coal's potential growth in China."

However, Birol cautions that the projected downturn is still "far from steep enough" to put the world on a trajectory to limit temperature increases to 1.5°C above pre-industrial levels, necessitating "much stronger and swifter policy action by governments."



Wet-ever floats your boat

El Nino has caused a prolonged drought in Panama.

Rainfall is about 30 to 50 per cent below normal and the area around the Panama Canal is experiencing one of the two driest years in the country's 143 years of keeping records, according to data from the Smithsonian Tropical Research Institute (STRI).

According to a marine expert at Deakin University, the equivalent of 80 Olympic sized swimming pools of water is used every time a ship passes through the canal, which all comes out of a lake, and is not being replaced because of the lack of rain.

The Panama Canal Authority has reduced maximum ship weights and daily ship crossings in a bid to conserve the canal's water. This has meant that the ships are either carrying less cargo or adding thousands of kilometres to their trips. Earlier this month, 160 vessels were backed up and delayed by as much as 21 days.

This is now easing, but restrictions are due to be maintained for at least the next 10 months. This is a major problem given 40% of the world's cargo passes through the Panama Canal every year – and that includes a lot of Christmas presents! Some will remember there was disruption across a number of sectors caused by the blockage of the Suez Canal in 2021, which only carries 30% of the world's cargo, and that was only for a week.

Alexa, are ESG risks material??

Australia's LNG (Liquefied Natural Gas) export industry has faced disruption and strike action across Chevron and Woodside LNG facilities, which combine to make up over 10% of global LNG supply.

The threat of worker action has spurred temporary spot price volatility in a global natural gas market that is still unsettled following Russia's invasion of Ukraine last year.

Whilst Woodside managed to avoid strikes by reaching an agreement with union leaders on pay and working conditions, Chevron remain in a tricky situation. Workers have been on partial strikes since the 7th September, after talks over wages and working conditions broke down. The union announced on social media that industrial action had "escalated today on the Chevron facilities and will continue to escalate over the coming days and weeks."

Acknowledging that the industrial action presents a "significant risk" to production, Chevron have asked Australia's Fair Work Commission (FWC) to intervene, hoping to rely on new laws that came in to effect in June this year. The tribunal will hold its first, and so far only, hearing on September 22nd. The FWC have the authority to put an end to the strike by instructing both sides to hold further talks, or even dictating the terms of the deal.

Ethical AI

With AI being increasingly mentioned on company calls, what should investors be looking out for in terms of risks and unintended consequences?

In May, we highlighted that Norway's sovereign wealth fund was planning to step up environmental shareholder proposals. They also said they would release guidelines for how the 9,000 companies it invests in should use AI "ethically".

They have since released these guidelines, and although it doesn't go into great detail - it is still early days in terms of implementation - the key points they will look for is Board accountability, and having expertise on the Board to oversee business AI policies.

They will also expect companies to be able to explain how the AI systems they develop, or use, have been designed, trained, and tested – and how they align with human values and intentions. They also expect that this information will be disclosed to trusted third parties, such as auditors or regulators, to allow them to verify the AI system and assess its risks.

Since the sovereign wealth fund is an influential voice on ESG advocacy, it will be interesting to see how these guidelines for "ethical AI" develop.

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