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Shareholder Activism for Stranded Asset Risk: An Analysis of Investor Reactions for Fossil Fuel Companies

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A B S T R A C T

Meinshausen, et al. (2009) in a seminal study estimated a carbon budget for 2000 to 2050, whereby no more than 1,000 gigatons of carbon emissions (CO2e) can be emitted for a 75% probability of less than 2ºC of warming to avoid catastrophic climate change. This was followed by a research report by the Carbon Tracker Initiative (CTI, 2011) demonstrating that to achieve this target about two-thirds of fossil fuel reserves are unburnable, i.e., stranded assets, suggesting a potential carbon bubble. In response, shareholder activists have engaged in divestment and shareholder resolution campaigns to persuade major fossil fuel companies to recognize and act on their climate change risks. In this study we examine investor reactions to these events for a sample of coal and oil and gas stocks during 2011 to 2015. We find significant negative cumulative abnormal returns (CARs) for both types of fossil fuel companies associated with two major CTI reports. However, we find significant negative CARs only for coal companies in response to divestment events. For shareholder resolutions targeting oil and gas companies, we find significant negative CARs for both coal and oil and gas companies to a special resolution requesting a return of capital to investors for stranded asset risk, and positive significant CARs for two manager-supported resolutions for reporting climate change risks.

Keywords: shareholder activism, divestment, stranded assets, climate change, shareholder resolutions; environmental shareholder activists
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