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The paper titled The Carlyle Group's Hidden Climate Impact (https://www.peclimaterisks.org/the-carlyle-groups-hidden-climate-impact/) , takes aim at the investment company, one of the top five largest private equity firms in the world.

It argues that such investors remain too far away from public scrutiny and with minimal regulatory oversight, which creates a dangerous gap in the transparency of their actions.

The research was undertaken by non-profit organisations Americans for Financial Reform Education Fund (AFREF) and the Private Equity Stakeholder Project (PESP), in collaboration with the Global Energy Monitor (GEM), who calculated that Carlyle has an portfolio with $22.4 bln in carbon-intensive energy but just $1.4 bln committed to renewable and sustainable energy companies – less than 1% of the firm's assets under management (AUM).

Due to the fact they are more hidden from view, private equity firms are well-placed "to swoop in and acquire polluting assets" sold by publicly-listed companies that are under public and investor pressure to cut emissions from their operations, the investigation stated.

This phenomenon has been described by Larry Fink, CEO of asset manager BlackRock, as "carbon arbitrage", a trend Carbon Pulse explored in recent analysis (https://carbon-pulse.com/191133/) .

Carlyle specifically, has AUM of $373 bln, and according to the report's authors, saw its energy investments do some "heavy lifting" last year amid the rising price of wholesale commodities markets, generating around half of the firm's overall net income.

This mainly came from over $660 mln in investment income from NGP Energy, an oil and gas subsidiary.

Historically, the carbon emissions impact of its portfolio over the 10-year period between 2011 and 2021 was around the size of the annual emissions of Spain, according to calculations made by the report, and has broadly risen over this period.

"Its billions of dollars of investment in fossil fuel assets produced an estimated 277 million metric tonnes of CO2 [equivalent] emissions over just 10 years," the report stated.

In 2021 alone, the total emitted by Carlyle-backed companies was more than 60 MtCO2e, it estimates.

A Flourish chart (https://flourish.studio/?utm_source=showcase&utm_campaign=visualisation/13581411)

An analyst at GEM, Alex Hurley, clarified to Carbon Pulse elements of the methodology used in the report.

"Our emissions calculations focused entirely on the fossil fuel assets of the portfolio companies owned by Carlyle during the specific windows in which they were owned. We did not seek to collect data on or calculate other emissions associated with these portfolio companies, such as emissions associated with their office spaces or business travel," he said.

For upstream fossil assets, the report included Scopes 1-3 emissions, meaning the report estimated the emissions associated with producing oil or gas and the embedded emissions within those fuels.

For midstream assets, we only estimated Scope 3 fugitive emissions, primarily methane leakage, while for downstream assets we estimated Scopes 1 and 2 emissions from the burning of fuels and operations of the plants.

"We avoided double counting the Scope 3 embedded emissions from upstream assets and Scope 1 emissions from downstream assets by removing the downstream emissions from the comprehensive totals. So the emissions from burning those fuels were only counted once," Hurley added.

PUBLIC PRESSURE

Due to the tightening of regulatory belts, with mandatory disclosure rules soon coming into force (https://carbon-pulse.com/154380/) in some countries, and overall rising public and shareholder pressure, many see private equity as now "the only game in town" for fossil assets, the report cites a Carlyle executive as saying.

In general, effective corporate climate disclosure is still very low across both spheres (https://carbon-pulse.com/190869/) despite the growing public pressure.

Research from non-profit CDP and global consultancy Bain & Co released last year (https://carbon-pulse.com/176331/) demonstrated that private companies trail public companies by a wide margin in their disclosure levels, finding that while 64% of public companies by market capitalisation reported their environmental impact through CDP, less than 1% of private companies had done so.

The gap also extended to climate ambition, with 73% of public companies actively setting emissions reduction targets, just 37% of the private enterprises doing so.

The shift of fossil assets from public to private is growing, according to PESP estimates. Since 2021, private equity firms have acquired at least $25 bln in fossil fuel assets from public companies such as ExxonMobil, ConocoPhillips, and Occidental Petroleum.

CARLYLE RESPONSE

Carbon Pulse put the report's findings to Carlyle, which pointed to a much lower emissions impact than the investigation's figures, though only considered the firm's Scope 1 and 2 emissions, whereas the report also included Scope 3 output.

For 2021, the firm said that its emissions data across Scopes 1 and 2 was 12.28 MtCO2e for its direct power investments and 9 MtCO2e across its oil and gas portfolio, bringing a total of 21.3 Mt, much lower than the over 60 MtCO2e impact for the same year, cited in the report.

Scope 3, or value chain, emissions tend to have the most substantial impact for investment firms, though there was no data provided by Carlyle on these.

"Carlyle's differentiated approach to invest in, not divest from, the energy transition is grounded in seeking real emissions reductions within portfolio companies over the long term," a spokesperson said.

"The energy transition isn't solely about selecting companies that are climate leaders today, it's about helping all sectors of the economy decarbonise. We are working across the sectors we invest in, including conventional energy companies, which can have some of the largest decarbonisation potential," they told Carbon Pulse.

Carlyle added that it also did not have "operational control" of NGP, the highly-profitable investment highlighted by the investigation.

"Carlyle does not control or manage any investment fund sponsored by NGP and does not direct the investment activities of any NGP-sponsored investment fund or the operations of any of their portfolio companies. Carlyle has no voting rights or consent rights on any NGP investment committee that selects investments to be made by NGP funds," they said.

The company has a target to reduce Scopes 1 and 2 emissions across its oil and gas portfolio from 9 MtCO2e, to 4.5 MtCo2e by 2030. It added that it now has 12 investments in renewable energy portfolio companies which contributed to emissions abatement of some 353,609 MtCO2e in 2021.

RECOMMENDATIONS

The report meanwhile outlined several recommendations for investors to avoid channeling finance towards emissions-intensive private equity firms.

These included requesting managers to align their portfolios with science-based targets which align within a 1.5C warming pathway, and ask for full disclosure of fossil fuel holdings, full-scope emissions, energy transition plans, and climate lobbying efforts.

Ultimately, they must shift capital investments toward private equity firms credibly transitioning away from fossil fuels and providing transparency about their holdings, emissions, and impacts, the authors urged.

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