Case #3. Should UK banks stop financing coal?

This case is based on an article, “critics take aim at UK financial sector the world’s 9th largest carbon emitter” by Jon Rees, 26 May 2021 in SPGlobal

https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/critics-take-aim-at-uk-financial-sector-the-world-s-9th-largest-carbon-emitter-64415431

UK Finance is a trade association for the UK banking and financial services sector. It represents nearly 300 firms in the UK providing credit, banking, markets and payment-related services. The association lobbies for its members and gives its view on the legislative and regulatory system for banking in the UK.

UK Finance’s British banks are set to come under renewed pressure to curb fossil fuel financing after the **International Energy Agency (IEA)** warned that energy companies must stop all new oil and gas exploration projects in 2021 to meet climate change targets.

(*The **International Energy Agency** (**IEA**; French: Agence internationale de l'énergie) is a Paris-based autonomous intergovernmental organisation with considerable international prestige established in the framework of the Organisation for Economic Co-operation and Development (OECD) in 1974 in the wake of the 1973 oil crisis. The **Organisation for Economic Co-operation and Development** (**OECD**; French: Organisation de Coopération et de Développement Économiques, **OCDE**) is an intergovernmental economic organisation with 38 member countries, representing the major economies of the world (except for China, Russia and India) founded in 1961 to stimulate economic progress and world trade.*)

The financing of polluting industries is becoming an increasingly important issue for bank shareholders with lenders also facing scrutiny from governments, regulators and environmental campaigners. The British financial sector is among the world's largest polluters and, if it were a country, would be in the top 10 emitters of carbon globally, according to environmentalists.

Meanwhile, the **International Energy Agency (IEA)**, said in its report released in May that changes were necessary to meet the Paris Agreement on climate change goal of limiting global warming to 1.5 degrees Celsius above pre-industrial levels.

"There is no need for investment in new fossil fuel supply in our net-zero pathway," the **IEA** said.

Chris Hohn of hedge fund **Children's Investment Fund Management (UK)** LLP and founder of the "Say on Climate" campaign said in the wake of the IEA report that banks should not be financing fossil fuel expansion.

"The new IEA 1.5-degree scenario makes it clear that for all energy producers there should be no new investment in the expansion of fossil fuel production. No bank should be financing that expansion, and no insurer should be providing cover.

"Shareholders should vote against any plans that continue the expansion of fossil fuel production, otherwise they cannot claim to care about the climate. Where boards will not align, shareholders should replace the board," said Hohn in an emailed statement.

UK financial sector's emissions vs. large economies

Rank	Country	Emissions CO2e*
1	China	11.71Gt
2	United States	5.79Gt
3	India	3.35Gt
4	Russia	1.99Gt
5	Indonesia	1.70Gt
6	Brazil	1.42Gt
7	Japan	1.15Gt
8	Iran	828.34Mt
9	City of London**	805.00Mt
10	Germany	776.61Mt

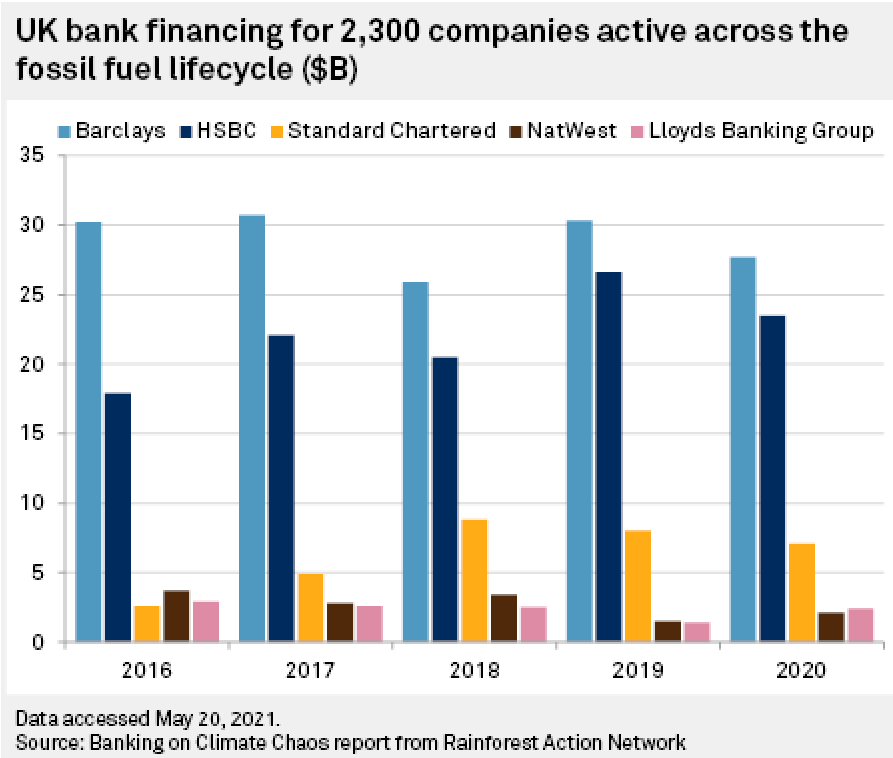
Data as of 2018.
Mt = megaton; Gt = gigaton
* CO2e, or carbon dioxide equivalent, is a standard unit for measuring carbon footprints
** The City of London is used as shorthand for the sample of banks and asset managers
Sources: Greenpeace; Climate Watch

U.K.-based financial institutions including banks and asset managers in the City of London rank ninth in the world, and ahead of Germany, in carbon emissions at 805 million tonnes in 2019, or nearly twice the official U.K. figure of 455 million tonnes, which excludes finance, according to a report from **Greenpeace** and the **World Wildlife Fund for Nature**.

"The finance sector is driving the high-carbon economy, yet there is currently no requirement for it to reduce its emissions in line with government targets — unlike other industries," said **Greenpeace** in a statement accompanying the May report into the U.K. financial sector.

The Banking on Climate Chaos report, from the **Rainforest Alliance** of environmental groups including Dutch-based **NGO BankTrack**, shows British banks play a key role in fossil fuel financing.

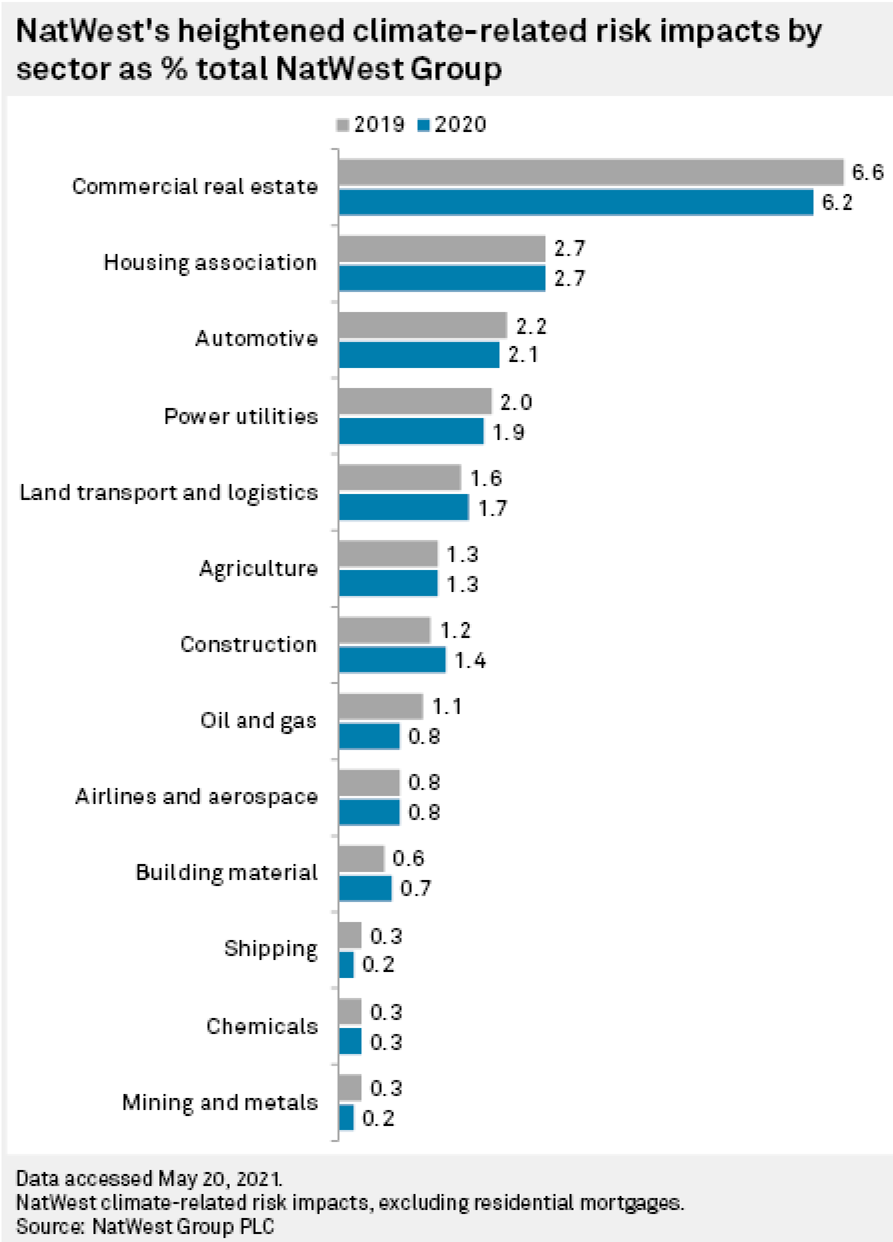
It said, for instance, that **NatWest Group PLC's** exposure to fossil fuel financing for 2,300 companies active in the market went up to $2 billion in 2020 from $1.45 billion in 2019.



The **Market Forces** environmental group, which has previously targeted **Barclays PLC**, has said it will raise the issue of bank compliance with climate change targets at **Standard Chartered** PLC's annual general meeting next year.

NatWest, banking sponsor of the November 2021United Nations COP26 climate change conference in Glasgow, said its exposure to the fossil fuel market has decreased in the past year, contrary to the figures in the Climate Chaos report.

The bank said its exposure to the oil and gas sector had decreased by £800 million in the past year. It will stop lending or underwriting major oil and gas producers unless they have a credible transition plan in line with the 2015 Paris Agreement by the end of this year. The bank said fossil fuel financing made up a "tiny proportion" of its overall lending.



Sam Theodore, independent analyst and senior consultant for **Scope Group**, compared banks' efforts to turn away from fossil fuels to a supertanker turning at sea.

"Banks have long-term contractual commitments. It is not only that they look at profits — they do of course, and if they don't show them the market will beat them," he said via email.

He also noted that big energy companies no longer have 100% exposure to fossil fuels and have significant commitment to green projects.

"An exposure to Shell or to Total does not mean a 100% exposure to oil and gas. These are large going-concern businesses which are major employers, banks cannot just drop all financing overnight. Doing so, aside from contractual issues, would lead to a steep growth in unemployment in specific regions and countries, with likely negative social consequences."

NatWest is not the biggest British fossil fuel lender, according to Banking on Climate Chaos, with Barclays far in advance of other U.K. banks, lending $27.7 billion in 2020. Barclays said in a statement that its emissions from its energy portfolio will reduce by 15% by 2025, while power portfolio emissions will reduce by 30%.

StanChart, according to the Banking on Climate Chaos report, is a substantial lender to the fossil fuel industry, ranking 34th out of the world's leading banks in the field, after lending more than $7 billion last year. StanChart has been criticized by Market Forces, after it said the bank had taken part in a $400 million five-year syndicated loan to Indonesian coal producer Adaro Energy despite the bank's own calculations that this was incompatible with the Paris climate accord.

"We have made major strides in our coal policy over the past few years, we continue to review our positions in light of stakeholder feedback and we intend to remain leaders in articulating a path to net zero by 2050. We are committed to detailed transparency on our transition strategy and plan to put it to a shareholder advisory vote in 2022," a StanChart spokesman said via email.

The bank said it would not provide financial services directly to any new coal-fired power plants in any location.

Shareholder action

Michael Hugman, director of climate finance at the Chris Hohn-backed **Children's Investment Fund Foundation**, which supports policies combatting climate change, said, following the IEA report, that shareholders should vote against any plans relating to fossil fuel expansion.

"Where boards will not align, shareholders must be prepared to vote them down. Going forward, we also want to see the wider industry, including banks, stock exchanges and insurers doing their part by phasing out fossil fuel financing, starting with an end to coal use in the **OECD** by 2030," he said via email.

The EU's proposed Green Asset Ratio, due 2022, will put pressure on banks to be transparent about their involvement in fossil fuels, and Theodore said banks understand the issues.

"I am convinced by now the banks got the message: from politicians, including now the U.S., from investors, from public opinion, from media. Regulators are going to push more climate-related stress tests, as just happened in France, required disclosure [from regulators] will improve. So the world is getting there, slowly, and the pressure on the sector is all positive. But things cannot change overnight."

See Appendix A. Reclaim Finance’s Proposed Investment Code

<u>Case questions:</u>

1. **(2) Using as a framework the model for ethical codes in Module 3 (see below), provide an assessment of the potential effectiveness of the Reclaim Finance "Code."**
2. **What is your assessment of the prospects for:**
   a. **(1) persuading UK Finance to endorse the code.**
   b. **(1) persuading an individual bank like Standard Charter or Barclay's to follow the code, even if it is not endorsed by UK Finance.**

(maximum length 250 words)

<u>IV. Ethical Codes (from Module 3)</u>

Many companies use ethical codes to guide the behavior of employees. Similarly, many social media websites have *de facto* ethical codes to guide the behavior of users of their websites.

There are three steps in a successful ethical code:

1. **Code Design**. Ethical codes consist of a combination of <u>general precepts</u> and <u>specific practices</u>. The <u>general precepts</u> permit broad application of a particular prohibition in a code, while <u>specific practices</u> define specific activities or practices that are NOT acceptable.
2. **Code Promulgation**, which means making sure the code is widely understood by company employees and they "buy in" to the code's objectives and elements.
3. **Code Enforcement**, which includes
   a. Detection, monitoring employees to determine if an element of the code has been violated, and
   b. Consequences for violation of the code.

Appendix A. Reclaim Finance's Proposed Investment Code

https://reclaimfinance.org/site/en/home-2/

Reclaim Finance believes that finance is a critical lever in the fight against climate change, but mainstream finance remains at the opposite end of the spectrum from social and climate justice objectives. In its view, there is no evidence that the new tools of so-called green finance translate into actual transformation in the real world, particularly in terms of GHG emissions reduction.

Reclaim Finance intends to act as a citizen counterweight in order to eliminate the impression that current action is sufficient.

The Reclaim Finance Vision in Code Form

The Reclaim Finance vision is to create a financial system that supports the transition to sustainable societies that preserve ecosystems and satisfy people's basic needs. Its campaigns include recommendations and guidelines supported by recognized expertise. Here is its proposed code for Coal finance in the UK.

Zero tolerance for expansion

1. No more direct support for new or existing coal mines, power plants and infrastructure projects.

2. Divestment and exclusion from all financial services of companies developing new thermal coal mines, power plants and infrastructure projects.

3. Suspend the provision of financial services to companies that sell equipment for the construction of new coal projects or purchase existing coal assets. Lift this moratorium only after a commitment by such companies to cease such activities.

Exit starts now

4. Divestment and exclusion from all financial services for companies that either derive more than 20% of their revenues or electricity production from coal; produce more than 10 million tonnes of coal per year; or operate coal power stations with a capacity of more than 5 GW.

5. Commit to stop providing financial services and to reduce the exposure of financing, investment and insurance portfolios to the thermal coal industry to zero by 2030 at the latest in EU/OECD countries and by 2040 elsewhere.

6. Require all companies to adopt a plan for the phase-out of their coal assets by January 1, 2021, setting out a detailed timetable aligned with the objectives of the Paris Agreement and the dates indicated above in point 5. Suspend all financial services in case of failure to act and exclude the company one year later if the problem is not resolved.

7. Require all companies to undertake to close, not sell, their coal assets while anticipating the retraining of employees. Moreover, Require all companies not to buy back existing assets. Suspend all financial services when a company refuses to make these commitments and exclude companies that would sell or buy an asset for which no date of closure has been decided or if the closure date is not aligned with a 1.5°C trajectory.

Appendix B. Other NGOs Attacking Coal Financing

Coalexit **https://coalexit.org/finance-data**

Coalexit identifies the investors and banks behind the companies on our Global Coal Exit List.

In January 2021, **4,488 institutional investors** held investments totaling **US$ 1.03 trillion** in companies operating along the thermal coal value chain.

Between October 1st 2018 and October 31st 2020 our research identified **665 banks** that provided loans totaling **US$ 315 billion** and underwriting activities worth over **US$ 808 billion** to GCEL companies.

For more information, see **Coalexit**'s full ranking of the financial institutions and our briefing "Revealing the Financiers of the Coal Industry".

BankTrack https://www.banktrack.org/page/about_banktrack

BankTrack is an international tracking, campaigning and CSO (Civil Society Organization~NGO) targeting private sector commercial banks, multilateral and national development banks, export credit agencies, private and institutional investors et cetera).

BankTrack's **mission** is to stop banks from financing harmful business activities; to promote a banking sector that respects human rights and contributes to just societies and a healthy planet; and to support fellow civil society organisations in their engagement with banks.

Global Energy Monitor (formerly CoalSwarm), GEM.wiki

Global Energy Monitor publishes the "**Global Coal Plant Tracker"** providing information on all existing coal plants of 30 MW or larger, as well as every plant proposed since January 1, 2010. Summary information including location, status, sponsor, size, and carbon dioxide emissions is found on the maps and table. For further detail, each unit shown on a map or in a table is linked to a wiki page on.