

Failure to Transition: How Barclays' 2019 Energy and Climate Change Statement fails to address climate risk

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Summary

Over recent years, there has been increasing recognition that continuing with fossil fuel business as usual is not compatible with avoiding dangerous climate change. Even BP's head of upstream has conceded that, "*Not every barrel of oil in the world will get produced...*"¹ Existing fossil fuel reserves considerably exceed both the 2°C and 1.5°C carbon budgets. It follows that exploration for new fossil fuel reserves is at best a waste of money and at worst very dangerous.² New analysis comparing the latest 1.5°C climate scenarios used by the Intergovernmental Panel on Climate Change with industry forecasts for production and investment finds that all of the \$4.9 trillion the oil and gas industry is forecast to spend on exploration and extraction from new fields over the next decade is incompatible with the Paris Agreement's 1.5°C goal.³

Redirecting banks' lending and underwriting portfolios away from fossil fuels is essential to limiting global temperature increases to well below 2°C and ideally to 1.5°C (the "Paris Goals"). The Paris Agreement calls for finance flows to be "*consistent with a pathway toward low greenhouse gas emissions.*"⁴ A move away from "banking as usual" is also necessary to prevent unacceptable credit risks arising from stranded assets in a transition to a low carbon economy, and the build-up of systemic risks from a failure to transition. The Task Force on Climate Related Financial Disclosures aims to "*improve pricing of climate-related risks, and lead to more informed capital allocation decisions*" by banks.⁵ Mark Carney and the Governor of Banque de France have recently reiterated that "*climate change is a global problem, which requires global solutions, in which the whole financial sector has a crucial role to play.*"⁶

Yet, while banks, including Barclays, are keen to highlight their increasing financing of 'green' initiatives,⁷ they are less willing to significantly decrease and, in time, phase-out their exposure to fossil fuels. Recent research has shown that 33 major global banks including Barclays poured \$1.9 trillion into fossil fuels since the Paris Agreement was adopted. Furthermore, over the past three years those same banks provided financial services worth \$600 billion to the 100 companies with the largest investments forecast in new fossil fuel extraction, infrastructure, and power generation.⁸

That research identified Barclays as the 'worst in Europe' in financing fossil fuels. This is despite Barclays's participation in the UNEP FI Principles for Responsible Banking, which includes a commitment to align business strategy with the Sustainable Development Goals and the Paris Goals.⁹ Barclays' 2019 Energy and Climate Change Statement does not display a level of ambition on climate commensurate with the scale of climate related risks to which it is exposed, or with its participation in under the Principles for Responsible Banking.

This briefing examines key aspects of Barclays' 2019 Energy and Climate Change Statement and the bank's continued support for fossil fuel expansion incompatible with the Paris Goals. We suggest questions institutional investors may wish to ask Barclays. We suggest that investors should encourage Barclays to take steps to align its business strategy with the Paris Goals including:

- **prohibiting the provision of project finance, general corporate finance, and the provision of underwriting and advisory services for or in connection with new fossil fuel projects, including exploration, extraction, transportation, and power generation;**
- **prohibiting the provision of general corporate financing, underwriting and advisory services to companies that are highly dependent on coal mining, coal power or tar sands; and**
- **publishing a plan for phasing out the provision of financial services to the fossil fuel industry on a timetable consistent with meeting the Paris Goals.**

Barclays: Finance flows to fossil fuels

- In 2018, Barclays was Europe's third biggest private sector bank supporter of companies planning coal power expansion around the world, primarily via underwriting the issue of bonds for such companies.¹⁰
- Barclays leads Europe in banking fossil fuels (\$85bn) and fossil fuel expansion (\$24bn) and is the top European banker of fracking and coal power.¹¹
- Barclays continues to offer project finance for the expansion of the tar sands unlike international peers including HSBC and BNP Paribas.¹²

In 2018, the beneficiaries of Barclays' underwriting services included Adani, National Thermal Power Company of India and RWE, companies which are involved in highly controversial coal development activities in Australia, Bangladesh and Germany.¹³ 2019 research has identified Barclays as providing \$24bn to companies among the 100 with the largest investments forecast in new fossil fuel extraction, infrastructure, and power generation with its total support for fossil fuels totalling \$85bn. EOG Resources, EQT Corporation, Pioneer Natural Resources, and Concho Resources are the top pure-play fracking companies active in the Permian (see below). Since the Paris Agreement, Barclays has led deals for EOG Resources, EQT

Corporation and Concho Resources.¹⁴ Barclays has provided financing in recent years to each of Energy Transfer Partners, TransCanada and Enbridge, the companies behind the controversial Dakota Access Pipeline, Keystone XL, and Line 3 replacement project respectively.

Barclays is the top European banker of fracking

Since the Paris Agreement, Barclays has led deals for EOG Resources, EQT Corporation and Concho Resources - three of the four top pure-play fracking companies active in the Permian.

The Permian Basin is America's most prolific oil basin. Located in northwestern Texas and the southeast corner of New Mexico, it is primarily drilled for oil through hydraulic fracturing or 'fracking,' but the same wells produce a lot of associated gas and natural gas liquids.

The Permian Basin holds the greatest potential for new oil and gas development in the United States and in the world. The basin could be the source of nearly 40 percent of the emissions enabled by production of currently undeveloped oil and gas in the United States between now and 2050.

Emissions from burning the oil and gas in core shale and discovered conventional Permian reserves alone would amount to over 29 billion tons of CO₂. The emissions from all currently developed and undeveloped oil and gas that could be produced and burned by 2050 could amount to close to 55 billion tons of CO₂. This is close to 10 percent of the total global carbon budget for a 50 percent chance of keeping warming within 1.5°C.¹⁵

RANK	BANK	2016	2017	2018	TOTAL
1	JPMORGAN CHASE	\$62.714 B	\$69.046 B	\$63.903 B	\$195.663 B
2	WELLS FARGO	\$36.041 B	\$54.207 B	\$61.351 B	\$151.599 B
3	CITI	\$41.560 B	\$44.674 B	\$43.259 B	\$129.493 B
4	BANK OF AMERICA	\$36.062B	\$36.879 B	\$33.745 B	\$106.687 B
5	RBC	\$28.846 B	\$36.810 B	\$34.881 B	\$100.537 B
6	BARCLAYS	\$30.543 B	\$29.897 B	\$24.740 B	\$85.179 B
7	MUFG	\$23.723B	\$26.103 B	\$30.213 B	\$80.039 B
8	TD	\$20.516 B	\$29.227 B	\$24.408 B	\$74.151 B
9	SCOTIABANK	\$18.302 B	\$24.170 B	\$27.098 B	\$69.571 B
10	MIZUHO	\$21.523 B	\$18.557 B	\$27.630 B	\$67.710 B

Figure 1: Bank financing for over 1,800 companies active across the fossil fuel life cycle

Source: Rainforest Action Network et al. 2019. Banking on Climate Change: Fossil Fuel Scorecard 2019

Barclays 2019 Energy and Climate Change Statement

Barclays' 2019 policy allows the bank to continue financing coal expansion via corporate lending and underwriting services; it enables ongoing funding for tar sands expansion projects including pipelines; and it does not correspond with the Bank's commitment to align its business strategy with the Paris Goals and to support a low carbon transition. It is not clear if the terms of the Energy and Climate Change Statement, such as enhanced due diligence on certain transactions, apply to syndicated loans in which Barclays might participate. This should be clarified.

Barclays' Energy and Climate Change Statement states that *"we are responding to the needs of our clients operating in the energy sector, supporting their transition to less carbon intensive sources of energy,..."*¹⁶ Barclays in announcing the Statement explained that *"Our approach balances the need to accelerate the transition away from the most carbon-intensive fossil fuel sources, with ongoing financial support for clients operating responsibly in energy sectors that are expected to contribute significantly to the world's energy mix."*¹⁷

However, in reality, Barclays' policy will lead to the locking in of otherwise avoidable emissions for decades to come. By continuing to finance high carbon projects like tar sands and related pipelines, the bank will finance projects which will obstruct the *"transition away from the most carbon-intensive fossil fuel sources"*.

Coal

Barclays became the twenty-second major international bank to commit to ending project finance for new thermal coal mines, and the twentieth to do the same for new coal plants worldwide. However, there is no restriction or exclusion for general corporate financing and underwriting for companies heavily reliant on coal. Barclays merely says that it will engage with such clients, without providing a clear set of targets and timelines.

Barclays has chosen to engage with companies generating 50% or more of their revenue from coal. It's doubtful whether companies so reliant on coal can transition to a business strategy aligned with the Paris Goals - the objective of any useful engagement. The likely inability of coal reliant companies to successfully transition to a low carbon economy has led other financial institutions such as BNP Paribas¹⁸ and Allianz¹⁹ to entirely exclude from their portfolios companies with even less reliance on coal. This raises questions about the climate risk mitigation merits of Barclays' approach.

Research published by BankTrack and partner organisations in December 2018 shows that while Barclays' lending for the top 120 coal plant developer companies has been in sharp decline over the last three years, its mobilisation of capital for these companies via underwriting services has more than doubled since 2016 to \$1.32 billion for the first nine months of 2018.²⁰

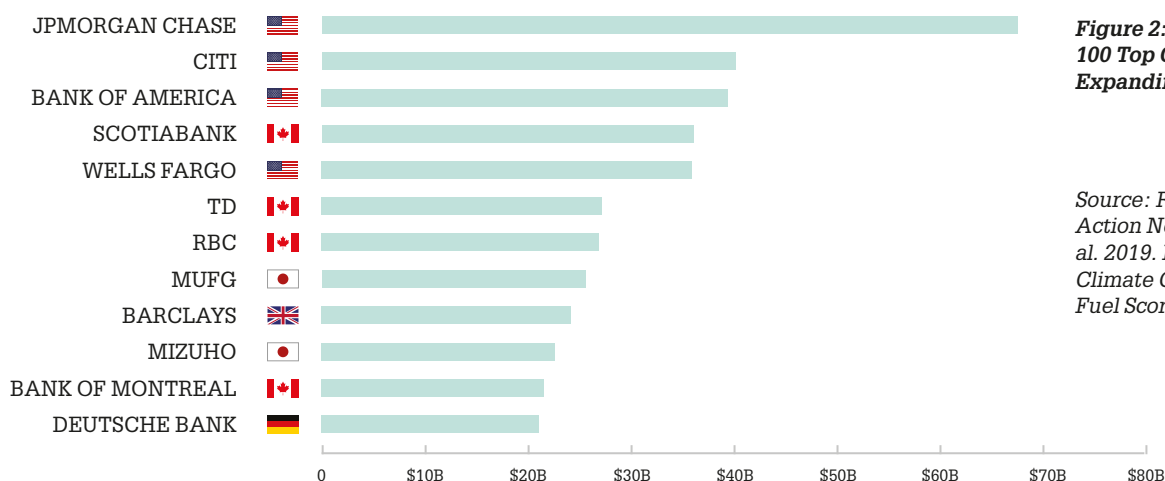


Figure 2: Finance for 100 Top Companies Expanding Fossil Fuels

Source: Rainforest Action Network et al. 2019. Banking on Climate Change: Fossil Fuel Scorecard 2019

Questions for investors to ask Barclays

We suggest that investors request that Barclays adopt a prohibition on general corporate financing, underwriting and advisory services to companies that are highly dependent on coal mining and coal power. However, investors may also wish to ask the following questions.

- **Why has the bank adopted a high revenue threshold of 50% for engagement - does it think companies so heavily exposed to coal can successfully transition to a low carbon business model?**
- **In engaging with companies heavily reliant on coal, what targets and milestones will Barclays ask such companies to meet in order to ensure they are “transitioning to a lower-carbon energy mix over the medium term?”**
- **What constitutes an acceptable “lower-carbon energy mix” from Barclays point of view?**

Tar sands

Numerous banks have now introduced some limit on the financing of tar sands.²¹ As of January 2019, Barclays has chosen instead to continue providing project and general corporate finance to this sector. The Energy and Climate Change Statement provides that Enhanced Due Diligence (EDD) will be carried out for such transactions - with EDD also applying to transactions impacting Indigenous People. However, unlike Barclays' statement on its EDD measures for Arctic drilling, the bank does not state that it does not expect clients to meet the relevant standards. In other words, Barclays expects to provide additional finance to the tar sands sector.

The environmental EDD measures appear to be restricted to compliance with legal and permit requirements, continuous reduction in emissions intensity (when gains in operational efficiency would in fact allow absolute emissions to grow), and local environmental impacts. The role of tar sands in driving climate change is ignored.

The unchecked growth of the tar sands - facilitated by new pipelines - would see emissions from Canadian oil exhaust 16% of the world's total carbon budget for staying below 1.5°C, or 7% of the 2°C budget.²² Accordingly, the continued expansion of the tar sands will not be compatible with an 'energy mix' required to achieve the Paris Goals. Research, including from industry groups, shows that the three proposed pipelines (Line 3, Trans Mountain Expansion Project and Keystone XL) are not required to support current or 'under construction' tar sands production but rather are to enable future projected tar sands expansion.²³

Questions for investors to ask Barclays

We suggest that investors should call on Barclays to adopt a prohibition on the provision of project finance, general corporate finance, and the provision of underwriting and advisory services for or in connection with with new tar sands projects, including related infrastructure, such as pipelines and on the provision of such financial services to companies that are highly dependent on tar sands. However, investors may also wish to ask the following questions.

- **Do the EDD measures set out in the Energy and Climate Change Statement apply only to bilateral credit facilities offered by Barclays or do they also apply in syndicated facilities where Barclays is not the arranger? If they do not apply to such syndicated facilities:**
 - **how will Barclays ensure it is not participating in transactions which would be in breach of its own Energy and Climate Change Statement?**
 - **what is the current breakdown % between bilateral and syndicated facilities involving either tar sands or impacting Indigenous Peoples? In other words, what is the potential level of exposure to transactions which are not in line with Barclays' own standards?**

- The EDD measures specified in the Energy and Climate Change Statement as applying to transactions that will have a direct impact on indigenous peoples specifically include “*Commitment and adherence to the Free Prior Informed Consent (FPIC) principles outlined in the United Nations Declaration of the Rights of Indigenous Peoples*”. Given continuing opposition from Indigenous Peoples to the proposed tar sands pipelines, can Barclays confirm whether it will therefore decline to participate in any ‘transaction’ related to the financing of those pipelines?
- How precisely does a client “*demonstrate commitment and adherence*” to FPIC? Is independent third party verification required?
- What public reporting will Barclays require clients to do on securing FPIC from affected Indigenous Peoples, nations, and tribes?
- Given that multiple financial institutions have determined that the Canadian tar sands are incompatible with the Paris Goals,²⁴ how does Barclays reconcile, from the perspective of climate risk mitigation, its decision to lend to this sector and its various climate change statements and initiatives such as the UNEP FI Principles for Responsible Banking?
- Does Barclays accept that after coal, tar sands is one of the most carbon-intensive fossil fuels? If so, and given Barclays claims on climate, does the bank accept that it has to in the near term end its support for tar sands expansion?
- If Barclays intends to provide finance in connection with a tar sands pipeline project, what steps will it take to mitigate the potential risk to its reputation and consumer backlash?

Conclusion

Barclays is growing increasingly vulnerable to climate-related financial risks. Barclays continued support for fossil fuel expansion increases the systemic financial risks of a failure to transition to a low carbon economy. A 2018 analysis by Schroders found that without further mitigation, climate change would lead to global economic losses of \$23 trillion - the equivalent of four times the losses incurred in the 2008 financial crisis.²⁵

We believe that Barclays should, in accordance with its participation in the Principles for Responsible Banking, take meaningful steps on fossil fuel financing. We suggest that investors encourage Barclays to take steps to align its business strategy with the Paris Goals including prohibiting the provision of project finance, general corporate finance, and the provision of underwriting and advisory services for or in connection with new fossil fuel projects, including exploration, extraction, transportation and power generation and the provision of financial services to companies that are highly dependent on coal mining, coal power or tar sands; and by publishing a plan for phasing out the provision of financial services to the fossil fuel industry on a timetable consistent with meeting the Paris Goals. We also suggest a number of questions for investors to ask Barclays about coal, tar sands, and the rights of Indigenous Peoples.

Questions for investors to ask Barclays

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- What constitutes an acceptable “lower-carbon energy mix” from Barclays point of view?

- Do the EDD measures set out in the Energy and Climate Change Statement apply only to bilateral credit facilities offered by Barclays or do they also apply in syndicated facilities where Barclays is not the arranger? If they do not apply to such syndicated facilities:
 - how will Barclays ensure it is not participating in transactions which would be in breach of its own Energy and Climate Change Statement?
 - what is the current breakdown % between bilateral and syndicated facilities involving either tar sands or impacting Indigenous Peoples? In other words, what is the potential level of exposure to transactions which are not in line with Barclays' own standards?
- The EDD measures specified in the Energy and Climate Change Statement as applying to transactions that will have a direct impact on indigenous peoples specifically include "*Commitment and adherence to the Free Prior Informed Consent (FPIC) principles outlined in the United Nations Declaration of the Rights of Indigenous Peoples*". Given continuing opposition from Indigenous Peoples to the proposed tar sands pipelines, can Barclays confirm whether it will therefore decline to participate in any 'transaction' related to the financing of those pipelines?
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Endnotes

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