Commercial Banks and Coal: A Policy Analysis

Introduction:

In spite of the adoption of the Paris Climate Agreement in 2015, global CO₂ emissions reached the all time high of 33 Gigatons in both 2018 and 2019. And while innumerable reports from the UN, the IPCC, the IEA and other international institutions have consistently warned that coal is the single largest source of CO₂ emissions heating up our planet, the world’s coal plant fleet still continues to grow. Since the Paris Agreement was signed, the world’s installed coal capacity grew by 105 GW – an amount equal to the combined coal plant fleets of Germany and Russia.

The implications of the Paris Climate Agreement for new coal investments are clear. In 2015, Christiana Figueres, who was then head of UNFCCC warned: “There is no space for new coal”.¹ And in 2015, the Secretary General of the OECD, Angel Gurria called new coal plants the “most urgent threat to our climate.”² Commercial banks and other financial actors need to heed these warnings and end all support to new coal projects and to companies with coal expansion plans.³

The larger challenge, however, is to phase out existing coal. According to the 2018 report of the Intergovernmental Panel on Climate Change (IPCC), primary energy use from coal must be reduced by 78% by 2030 in order to keep the 1.5°C target within reach. This means that coal-fired capacity in OECD countries must be phased out by 2030 and in the rest of the world by 2040 at the latest. In order to be in line with these targets, commercial banks must rapidly roll back corporate lending, investment banking and

¹ [https://www.theguardian.com/environment/2015/may/04/un-climate-chief-says-the-science-is-clear-there-is-no-space-for-new-coal](https://www.theguardian.com/environment/2015/may/04/un-climate-chief-says-the-science-is-clear-there-is-no-space-for-new-coal)


³ This includes not only the construction and development of coal plants, coal mines and other coal infrastructure, but also the life time extension of coal assets through retrofitting and acquisition sales.
other financial services to the coal industry. A coal exit in the real world can only be achieved if financial actors phase out their support to the industry long before we reach the 2030 and 2040 roadmarks.

Our ability to prevent the destabilization of our climate system depends not only on governments, but also on the finance industry. Behind each new coal plant and coal mine, there are banks, investors and insurers without whom these projects could not be realized. This briefing analyzes the policies adopted by commercial banks on coal since 2015. It lays out the key elements of a good bank policy and provides an overview of institutions that have begun moving in the right direction. It also identifies the policy gaps that commercial banks must quickly address if they aspire to become responsible climate actors.

**Elements of a Good Bank Policy on Coal**

1. **No project finance for new coal plants, coal mines or other coal infrastructure.**

   Many of the world’s largest banks already have policies in place that exclude direct financing of new coal projects.

   As of May 2020, 30 commercial banks have adopted policies stating they will not provide project finance for the development of new coal mines. Among these banks are Goldman Sachs, Standard Chartered, Santander, Deutsche Bank, BNP Paribas, Crédit Agricole, Credit Suisse, DBS, NAB and ING.

   37 commercial banks have committed to no longer participate in project finance deals for new coal power plants, regardless of where their location is or which technologies are applied. Among these banks are, for example, BNP Paribas, Crédit Agricole, Deutsche Bank, Barclays, UBS, KBC, Rabobank, US Bancorp, Ned Bank, DBS and OCBC.

   An especially disappointing coal power policy was adopted by Japan’s largest commercial bank MUFG in May 2019. Although MUFG’s policy states that the bank “will not provide financing to new coal-fired power generation projects”, it also states that “exceptions may be considered” depending on “the energy policies and circumstances of the host countries”. This is a clear case of green washing and we have thus not included MUFG in the list of banks that rule out direct financing of new coal power projects.
2. Restrict corporate lending, investment banking and other financial services for coal mining companies and coal-based utilities.

Project finance is, however, only the tip of the iceberg as it accounts for a small share of commercial banks’ overall support for the coal industry. The bulk of banks’ involvement is through general corporate lending and investment banking, where banks assist coal companies in raising capital through bond and share issues. Since May 2015, several major banks have thus begun restricting corporate finance for the coal industry. The best policies cover both corporate lending and underwriting of bond and share issues as well as other financial services, such as advisory mandates.

2.1. Percentage-based exclusion criteria

17 major banks are now using coal revenue or coal power thresholds as a basis for screening out clients whose business models are dependent on coal. While ABN AMRO, KBC, Société Générale and Commerzbank use a 50% threshold to exclude coal companies from lending and other financial services, other banks have begun adopting lower and more ambitious thresholds. BBVA uses a 35% threshold, and UBS has adopted a 30% threshold while Natixis and Crédit Agricole have recently moved to a 25% threshold. In February 2020, France’s 5th largest bank Crédit Mutuel adopted a 20% threshold. In the same month, RBS announced that it will stop lending and underwriting for companies above a 15% coal threshold by the end of 2021, unless these companies have a transition plan in line with the Paris Agreement.

While many of the above-named policies apply to both coal mining and coal power companies, the policies of some banks such as Commerzbank and UBS only cover coal power companies. UBS’s policy also contains an additional loophole: It allows an exemption for coal power companies above the 30% threshold if they “have a transition strategy in place that aligns with a pathway under the Paris Agreement.” UBS’ interpretation of this clause is that companies whose coal phase-out date is in line with their country’s NDC (Nationally Determined Contributions) can remain in the bank’s portfolio. The bank, however, conveniently ignores the fact that the vast majority of NDCs are still not in line with the 1.5°C goal set out in the Paris Agreement. In practice, this means that companies such as Germany’s RWE (Europe’s largest CO₂ emitter) will stay in UBS’ portfolio.

Natixis’ and Crédit Agricole’s coal policies are among the most comprehensive as they not only cover corporate lending and investment

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4 Commerzbank will only apply this threshold from 2021 onwards.
banking for coal clients, but also apply to advisory services, coal-related financial derivatives, acquisition finance for coal assets and third-party asset management and insurance. While Crédit Agricole applies a 25% coal share of revenue threshold to screen out clients from corporate finance, Natixis uses a 25% coal share of revenue threshold for coal miners and a 25% coal share of power generation threshold for utilities. The latter caveat is important as a utility’s coal share of power generation is a much more precise measure of its coal dependence than a revenue threshold.

2.2. Using an absolute threshold to exclude the largest coal players

The Norwegian Government Pension Fund and several large European insurers have recognized that percentage criteria are not sufficient as they only measure the relative importance of a company’s coal operations to its overall business. The impact a company has on our climate, however, depends on the absolute size of its coal operations. These institutions have therefore also adopted absolute thresholds to screen the largest coal players out of their portfolio, even if these companies do not meet the relative percentage thresholds outlined above. AXA and the Norwegian Government Pension Fund therefore now exclude all companies whose annual coal production exceeds 20 million tons or which operate over 10 GW of installed coal-fired capacity.

Crédit Mutuel is up to now the only bank that has included an absolute threshold in its coal policy. The bank laudably applies even tighter thresholds than the above-named investors. Crédit Mutuel excludes all clients operating over 5 GW of installed coal-fired capacity or producing over 10 million tons of coal annually.

2.3. No corporate finance for companies with coal expansion plans.

Although percent-based exclusion thresholds are important, they do not automatically screen out companies with coal expansion plans. According to research undertaken by Urgewald, around half of the world’s coal plant developers aren’t captured through a 30% coal revenue or coal power exclusion threshold.

Some financial institutions have therefore begun blacklisting companies that are planning to develop new coal-fired power capacity. In 2017, the financial service provider Storebrand was the first investor to exclude coal plant developers from its portfolio, but since then large European insurers

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5 NGOs, however, criticize that two large coal companies seem to have been exempted from this policy by one of Natixis Group’s asset managers.
such as AXA, Generali, CNP Assurances and Allianz have all followed suit. AXA, for example, excludes all companies from its investment universe that have plans to build over 300 MW of new coal-fired capacity or to develop new coal mines. And the insurance company Zürich recently announced that from 2021 onwards it will neither invest in nor insure companies that are developing new coal mines or coal power infrastructure.

In June 2019, Crédit Agricole became the first private bank to set a new standard for dealing with coal expansionists. Crédit Agricole announced that it will end its relationship with all clients that are planning to expand thermal coal mining, coal-fired power capacity, coal transport infrastructure or coal trading. In February 2020, France’s Crédit Mutuel also ended its support of all companies with coal expansion plans.

Other commercial banks should follow these examples and stop providing corporate lending, investment banking and other financial services to ‘coal expansionists’.

3. Putting an end-date on financial support for the coal industry.

While several commercial banks have begun using different thresholds to screen out companies whose business is heavily dependent on coal, this is only the first step. To stay within the limits defined by the Paris Climate Agreement requires a full phase-out of coal-based energy generation within the next 1-2 decades. This in turn means that commercial banks and other financial actors need to put an end date on their support for the coal industry and begin progressively tightening their exclusion criteria to meet this commitment.

One of the first movers in this regard was the Dutch bank ING. In December 2017, ING announced that from the end of 2025 onwards, it will no longer accept utility clients with over 5% coal-fired generation in their energy mix. As ING’s Vice-Chairman Koos Tiummermans said: “We realize that contributing to the Paris Agreement targets is also about making clear choices in what we’ll no longer finance, especially when there are good alternatives available.” ING’s policy, however, only covers coal power and does not address the rest of the thermal coal value chain.

In the meantime, investors such as Allianz or Storebrand have set dates for a phase-out of all their coal-related business lines and investments. And several banks such as Commonwealth Bank of Australia, RBS, Société

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6 https://www.ing.com/Newsroom/All-news/ING-further-sharpens-coal-policy-to-support-transition-to-low-carbon-economy.htm
Générale, Crédit Agricole and Crédit Mutuel - have all recently announced dates by which their portfolios will be coal-free.

Commonwealth Bank, RBS and Crédit Mutuel plan to exit the coal sector by 2030 and Société Générale has committed to reduce its coal exposure to zero by 2030 in OECD countries and by 2040 in the rest of the world. Crédit Agricole’s coal exit plan is also geographically staggered. The bank’s June 2019 policy requires clients to put forward detailed plans by 2021 for closing down coal assets in OECD countries by 2030 and the rest of the world by 2040. An innovative aspect of Crédit Agricole’s approach is that it calls on companies to retire coal assets instead of simply selling coal mines or coal power stations to new owners – a step that generally prolongs the operation of these assets.

**Conclusion**

In order to begin aligning their portfolios with the Paris climate goals, banks need to adopt coal policies that cut support for companies planning coal expansion, progressively restrict support for existing coal and put an end-date on all financial services for the coal industry. The coal policy that meets these requirements best is the one recently adopted by Crédit Mutuel. It excludes all coal developers, uses a 20% coal share of revenue or coal power generation threshold, applies absolute exclusion thresholds of 5 GW or 10 million tons of coal and sets an end date of 2030 worldwide for its remaining coal investments.

The good news is that more and more commercial banks are beginning to take new coal exclusion policies on board. The bad news is that the steps taken are often still too small and the pace too slow. Time is our major challenge and banks must now scale up their ambition and speed up their actions in order to meet the urgency of the crisis. Otherwise we will fail the most basic of all climate tests: leaving coal behind.

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**Annex:**

Banks that exclude project financing for new coal plants:

ABN Amro, Barclays, BNP Paribas, CaixaBank, Citigroup, Crédit Agricole, Crédit Mutuel, Credit Suisse, DBS, Deka Bank, Deutsche Bank, DnB, DZ Bank, Goldman Sachs,
Banks that exclude project financing for new coal mines:

ABN Amro, Barclays, BNP Paribas, CaixaBank, Citigroup, Commerzbank, Crédit Agricole, Crédit Mutuel, Credit Suisse, Danske Bank, DBS, Deutsche Bank, Erste Group, Goldman Sachs, Handelsbanken, Helaba, HSBC, ING, Intesa Sanpaolo, JPMorgan Chase, KBC, Lloyd’s, NAB, Natixis, Rabobank, RBS, Santander, Société Générale, Standard Chartered, Swedbank, UBS, UniCredit, UOB, US Bank

Banks that exclude project financing for coal-related infrastructure:

Crédit Agricole, Crédit Mutuel, Deutsche Bank, Helaba, Natixis, Rabobank, Société Générale

Banks that exclude corporate financing for companies above a designated coal revenue or coal power percentage (relative criteria):

ABN Amro, Barclays, BBVA, BNP Paribas (only coal mining), CaixaBank, Commerzbank (only coal power), Crédit Agricole, Crédit Mutuel, Danske Bank, JPMorgan Chase (only coal mining), KBC (only coal power), Natixis, RBS, Société Générale, Swedbank, UBS (only coal power), UniCredit

Banks that exclude corporate financing of companies above absolute coal production and coal power thresholds:

Crédit Mutuel

Banks that exclude corporate financing for companies with coal expansion plans:

ABN Amro (only coal power), BNP Paribas (only coal power), Crédit Agricole, Crédit Mutuel, Société Générale (coupled with other criteria), UniCredit

Banks that have put an end-date on their support to the coal industry:

BNP Paribas (only coal power), Commonwealth Bank, Crédit Agricole, Crédit Mutuel, ING (only coal power), RBS, Société Générale