

Case #2. Should UK Banks Stop Financing Coal?

This case is based on excerpts from 3 articles. The two questions at the end are simple, so you do not have to immerse yourself in the details of the articles.

Article #1 (excerpt)

“3 UK banks to commit to coal financing phase-out by 2030 at COP26”

By Mark Kleinman 2 November 2021 Sky News

<https://news.sky.com/story/uk-banks-to-commit-to-coal-financing-phase-out-by-2030-at-cop26-12458140>

In November 2021, three of Britain's biggest banks joined an alliance aimed at phasing out the world's dependence on coal power to demonstrate their green credentials at the 2021 COP26 global climate change summit.

HSBC, Lloyds Banking Group and **NatWest Group** are among 10 financial institutions signing up to the **Powering Past Coal Alliance (PPCA)**, which was established by the UK and Canada governments in 2017.

The new signatories will take the number of institutional members of the PPCA to 32, according to one person briefed on the initiative.

Meanwhile, campaigners from the environmental group **Market Forces** criticized HSBC along with other UK-based lenders, for continuing to provide financing to fossil fuel projects in 2021.

Article #2 (excerpt)

“Big banks are pumping cash into coal industry in spite of net zero pledges, research finds”

Financial institutions say they are funding the transition away from coal, the dirtiest fossil fuel, but campaigners say the term is a cover for business as usual.

By Victoria Seabrook, Climate reporter [@SeabrookClimate](#) 15 February 2022

<https://news.sky.com/story/amp/climate-change-big-banks-pump-cash-into-coal-industry-in-spite-of-net-zero-pledges-research-finds-12542531>

Big banks are channeling billions into the coal industry in spite of their own net zero targets, according to a new report from a group of 28 environmental campaign groups.

They say financial institutions channeled US\$ 1.5 trillion to the coal industry between January 2019 and November 2021, with those from the UK, US, China, Japan, India and Canada responsible for more than 86% of coal financing and investment.

"It's absolutely frightening to see that pension funds, asset managers, mutual funds and other institutional investors are still betting on coal companies in the midst of an existential climate crisis," said Yann Louvel from **Reclaim Finance**, involved with the research.

A **Barclays** spokesperson said the bank now refuses finance for new or expanded coal plants or mining, and aims to reduce carbon dioxide pollution from its energy portfolio by 15% 2025.

Citigroup declined to comment, but, similarly to Barclays, its policy appears to be centered on transitioning away from coal by winding down investment for new or expanded facilities, rather than divestment.

Katrin Ganswindt from **NGO Urgewald**, which also worked on the report, claimed "transitioning" was "nothing more than a talking point to cover up business as usual".

"In reality, we see only four companies on the **Global Coal Exit List (GCEL)** with a credible transition plan out of coal and into renewables," she told Sky News.

The **GCEL** is a database of the 1,032 companies involved with the mining, trading, transportation and utilisation of coal, compiled by Urgewald.

The research displays all corporate lending and underwriting for companies on the GCEL, but excludes green bonds and financing that is expressly directed towards non-coal activities.

The coal sector is responsible for nearly half of global greenhouse gas emissions.

At last November's Glasgow climate talks COP26, more than 40 countries newly pledged to ditch coal use, although major consumers such as China, India and the United States did not sign up.

Article #3 (excerpt)

“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.)*

"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.

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

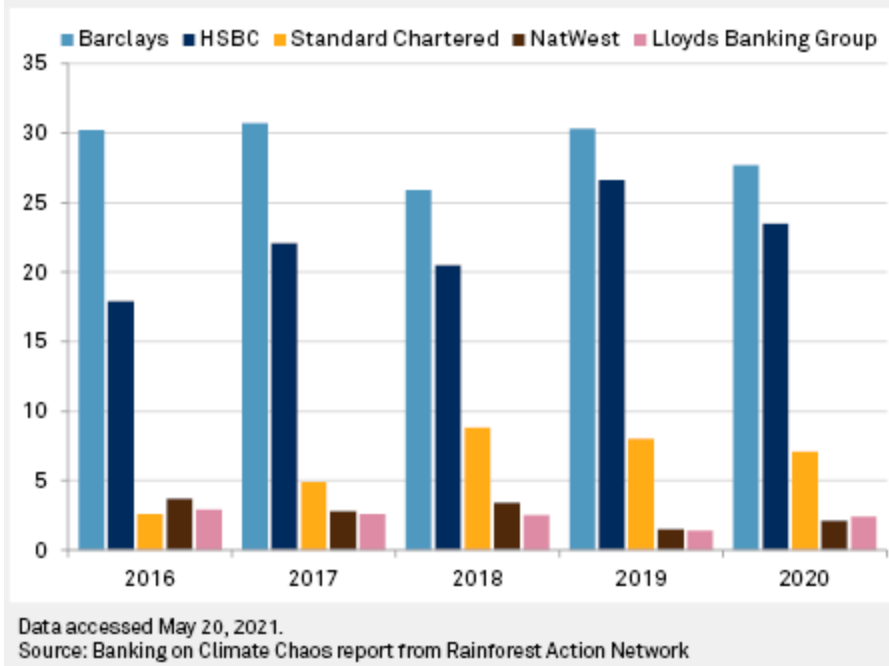
Sources: Greenpeace; Climate Watch

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.

UK bank financing for 2,300 companies active across the fossil fuel lifecycle (\$B)



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 2021 United Nations COP26 climate change conference in Glasgow, 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.

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

CASE UPDATE: 2023

In September 2022, six months after Russia's invasion of Ukraine. Germany announced that 20 coal-fired power plants scheduled to be shut down by the end of the year to maintain Germany's commitment to phasing out coal by the end of this decade, would remain operating . With Russia cutting natural gas deliveries to Europe, and with no quick options to replace that energy, Germany was forced to turn to its most reliable — and environmentally polluting — fossil fuel-- to ensure Germany has enough energy to get through the winter. (The UK will keep one of its three coal-fired plants scheduled for decommissioning operating for an additional two years.)

CASE QUESTIONS

1. Create a supporting argument for and against each of the following assertion:

- a. (2) UK Finance should require all of its member banks to stop financing coal operations in the UK and EU by 2030.**
- b. (2) Because many developing countries have few non-coal options for generating heat and electricity, UK Finance should make exceptions and "tolerate" investment in coal operations in these developing countries for now.**

Focus on the information above. Be sure to explain the basis for your positions.

If you have time and are interested in the topic, read the Appendices

(total maximum words for two answers-- 250 words)

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](https://www.gem.org/)

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.