



# **BLACKROCK'S NET ZERO COMMITMENT PUT TO THE TEST:**

**The tar sands case**

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## EXECUTIVE SUMMARY

**B**lackRock CEO Larry Fink recently announced<sup>1</sup> in his annual letter to clients that the asset manager would seek to align its portfolio with a net zero economy. Policy announcements also included a promise to hold portfolio companies accountable for setting net zero plans and a commitment to increase oversight of companies with "significant climate-related risk" and support more shareholder climate resolutions.

These new measures imply huge changes for BlackRock as they require its investments to quickly become compatible with a 1.5°C world, which is far from being the case<sup>2</sup>. Unfortunately, BlackRock has yet to clearly define what net zero means, or to establish short and medium term benchmarks that would reduce overall emissions in line with climate science. Furthermore, the new measures still provide a way out to major polluters, as BlackRock has still not taken any steps to exclude climate laggards in the short term. There is not enough time left regarding our climate goals for engagement strategies directed at companies in the fossil fuel sector that have no viable net zero transition pathway, such as companies actively expanding fossil fuel exploration and production.

Over the next few years, concrete steps will need to be taken by BlackRock as it is highly unlikely that continuing to shrug off responsibilities will really lead to the 'tectonic shift' in investing required in the short term.

Embarking on a net zero pathway has immediate implications for BlackRock, as fossil fuel production needs to quickly wind down. The 2020 Production Gap

Report, published with the UNEP, shows that, alarmingly, major fossil fuel producing countries are still planning for an average annual fossil fuel production increase of 2%. By 2030, this would result in more than double the fossil fuel production than would be consistent with the 1.5°C limit. **It is therefore highly inconsistent for financial actors which have committed to become net zero by 2050 to continue to invest in major fossil fuel developers in 2021, and especially companies involved in unconventional oil and gas development.** As outlined by recent research<sup>3</sup> by HSBC, "it will be difficult for net-zero committed institutions to justify holding oil & gas issuers in net-zero portfolios".

It is well past time for BlackRock to exit any company planning to develop new fossil fuel reserves and infrastructure and not complying with a robust fossil fuel phase out plan.

**The tar sands sector is a key example of a sector that is clearly inconsistent with keeping global warming below 1.5°C, as tar sands reserves are a ticking time bomb regarding climate objectives. Our research reveals that BlackRock is a massive supporter of the tar sands industry, with \$75 billion of current holdings in 30 major tar sands production companies planning on developing new reserves.**

To be consistent with its net zero commitment, BlackRock will need to step up its ambition and stop fueling the tar sands sector and exacerbating the huge negative impacts on climate and human rights linked to its development.

# THE CASE AGAINST TAR SANDS

As conventional oil reserves become scarcer, the insatiable appetite for the fuel has led to **the use of more and more extreme and damaging techniques for obtaining it. The processes for producing tar sands (also known as oil sands) involve with highly negative impacts for the climate, the environment, and Indigenous populations.**

## Climate impacts

**The enormous volume of tar sands' reserves worldwide** is alone substantive evidence of the threat that tar sands pose to climate objectives if exploited, due to **the direct greenhouse gas emissions this quantity of oil represents.** Nevertheless, the huge size of the tar sands reserves is not the only threat to the climate. **The second threat comes from the extraction and refining processes.** Due to the characteristics and composition of tar sands, energy-intensive extractions techniques are needed. **Consequently, emissions from tar sands extraction and upgrading are between 3.2 and 4.5<sup>6</sup> times higher than those from conventional oil produced in North America.** Similarly, fuel derived from tar sands bitumen contains between 14 and 37%<sup>7</sup> more greenhouse gas emissions than the average gallon of fuel from conventional oil when considering a lifecycle assessment. A major report<sup>8</sup> published in Nature confirmed that extracting all tar sands oil would use up almost one-third of the planet's remaining carbon budget to keep the world below 2°C. To make matters worse, **emissions estimates**

**do not often consider one of tar sands' more polluting by-products: petroleum coke or petcoke.** Petcoke is more polluting than coal<sup>9</sup>, emitting between 5 to 10% more carbon dioxide per unit of energy. Its estimated production output is substantial, with the proven reserves of tarsands in Canada providing enough petcoke to fully fuel 111 coal plants in the U.S. until 2050. Commercialization of petcoke is encouraged by its low price, as it sells with around a 25% discount versus conventional coal. For instance, U.S. exported more than 8.6 million tons of petcoke to China to fuel its coal-fired power plants between January 2011 and September 2012.

## Environmental impacts

The techniques for extracting tar sands consist of strip mining or injecting high pressure steam into the ground to melt the bitumen and make it flow to the surface. **These extraction processes, together with the tar sands refining process, are not only energy-intensive, but also water-intensive.** Moreover, extraction of tar sands releases toxic substances contained within, such as metals and sulphurs, into the environment.

**Transportation of tar sands is also a source of negative environmental impacts.** Since tar sands are highly corrosive to pipelines, tar sands spills are likely to occur, and they are particularly difficult to clean. For instance, tar sand spills in water are almost impossible to clean since bitumen sinks in water, contrary to other oils. The Kalamazoo River spill in July 2010

Tar sands are a low-quality form of oil, composed of bitumen, sand, clay and water, making it a highly viscous material, too thick to flow on its own. Deposits of tar sands are found in places such as the U.S., Russia, Congo, Madagascar, and Venezuela. However, it is currently mainly produced commercially in Canada. The country accounts for 70%<sup>4</sup> of global tar sands reserves, which is the equivalent of the third largest<sup>5</sup> proven oil reserve in the world.



cost more per barrel to clean up than any spill in U.S. history<sup>10</sup>. Moreover, oil traces persisted over the years, in spite of the elevated costs and two years of clean-up activities.

**Finally, tar sands extraction in Canada threatens one of the world's major ecological treasures<sup>11</sup>: the boreal forest.** This region is rich in ecosystems that include various kinds of forest and numerous waterways and is home to endangered species such as black bears and caribous. In terms of climate change, boreal forest can capture and store twice as much carbon dioxide as tropical forests. However, boreal forest loss is especially high in the Alberta tar sands region. Between 2000 and 2012, forest loss caused mainly by tar extraction accounted for 5.5%<sup>12</sup> of the total land area.

## Human rights

Historically, tar sands extraction and pipeline projects have been often built and proposed on traditional lands of the First Nations and tribes without their previous free, prior and informed consent. These projects are not only imposed, thereby violating the rights of Indigenous People, but they also harm their traditional land, water, livelihoods and traditional practices. **Over 150 Indigenous Nations united with the Treaty Alliance Against Tar Sands Expansion to oppose the tar sand pipelines impacting their traditional territories.** Some Indigenous groups, such as the ones participating in the Mazaka Talks (Money Talks) campaign or the coalition fighting against the Line 3 pipeline in Minnesota specifically target financial institutions financing "fossil fuel projects and related repression of Indigenous and human rights."

## Financial risks and reputational risks

All the aforementioned negative impacts are reflected in financial and reputational risks for financial actors supporting tar sand projects.

Extracting, processing and transporting tar sands

is highly capital-intensive. Supporting tar sands projects locks in capital and high greenhouse gas emissions for decades, even more than the majority of other fossil fuel infrastructure projects.

**Since tar sands can easily be substituted for less carbon-intensive and cheaper alternatives, their profitability is highly dependent on high oil prices.** For instance, assuming other market conditions are aligned, below an oil price of USD 90 per barrel, pipelines are the only economically viable way of transporting large amounts of tar sands<sup>13</sup> from Alberta to the refineries in the U.S.A. and to ports that serve overseas markets.

However, **pipelines are prone to intense opposition from Indigenous communities and environmental groups.** TransCanada's Energy East Pipeline was cancelled after public opposition. The Keystone XL, the Trans Mountain and the Enbridge's Line 3 pipeline projects have faced years of strong opposition and legal hurdles. For instance, despite Trump's support and after more than 10 years of controversies, Biden rescinded the construction permit for the Keystone XL oil pipeline<sup>14</sup> on his first day in office.

**Public pressure has showed results in pushing financial actors out of tar sands projects.** The best example is BNP Paribas, the second-largest bank in Europe. In 2017, BNP Paribas integrated a set of measures on non-conventional oil and gas<sup>15</sup> after facing months of strong pressure from NGOs and Indigenous groups. The tar sands portion of this policy mostly excludes companies with more than 30% of their business in tar sands and rules out financing for the full range of tar sands projects. This meant that the bank stopped supporting Keystone XL, Trans Mountain and Line 3, and the companies involved in these projects.

**“BlackRock is committed to the global goal of a just and fair transition to net zero”**

*BlackRock's Global Executive Committee, January 2021*

# BLACKROCK'S HEAD IN THE SAND

## Investors' responsibility

Fossil fuel production needs to decrease by 6% every year until 2030<sup>16</sup> for the world to remain on a 1.5°C pathway. Nonetheless, many new projects are planned and in development across all gas and oil sub-sectors. In this report, all the tar sands companies examined have new tar sands reserves projected to be produced by 2050.

Financial institutions supporting the companies behind these projects are the main enablers of these new production capabilities. Especially worrying is the number of new projects related to unconventional sources of oil and gas - amongst them northern American tar sands projects<sup>17</sup>. Ending all support to companies active in oil and gas sub-sectors which constitute the highest risks for populations, the environment, the climate, and in turn financial institutions, such as shale oil and gas and tar sands, is a necessity for any investor seriously committed to climate action.

## BlackRock's quiet addiction to tar sands

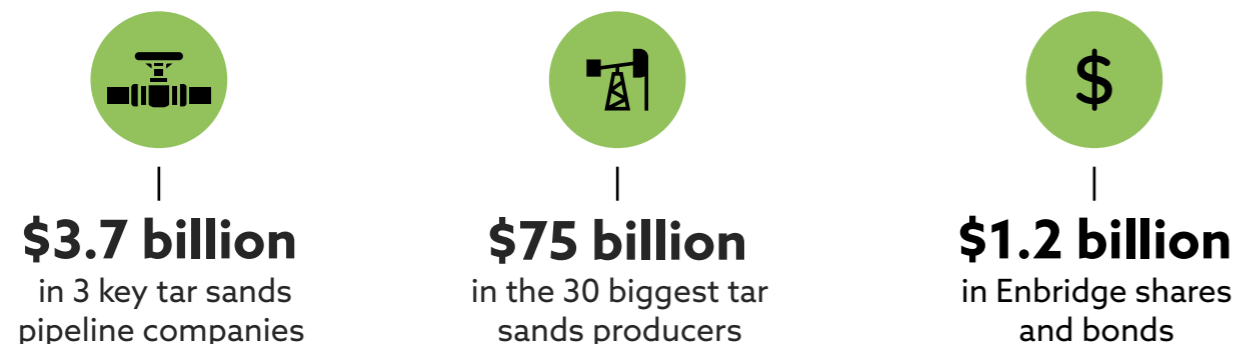
Despite the wide array of risks associated with tar sands, and the incompatibility of any new hydrocarbon project with climate objectives, BlackRock, with its almost \$9 trillion of assets managed, does not have a global tar sands exclusion policy.

Our research finds that BlackRock currently has \$3.7 billion in the three key pipeline companies which still have existing or proposed pipelines to carry tar sands oil out of Alberta (Enbridge, TC Energy, Plains All American Pipeline). BlackRock has a total of \$75 billion in the 30 biggest tar sands production companies<sup>18</sup>, such as oil giants Chevron and Exxon, including \$2.2 billion in tar sands pure players Imperial Oil, Canadian Natural Resources and Suncor.

Estimations suggest that these companies are projected to produce an additional 11.6 billion barrels of oil sands in the future. In addition to its investments in major tar sands companies, BlackRock is also one of the top shareholders of many of the largest banks that continue to finance tar sands and pipeline expansion.

BlackRock is being Janus-faced when it comes to tar sands. Recognizing that the tar sands oil production process generates more carbon pollution than conventional crude oil, BlackRock has excluded some tar sands companies from most of its ESG labeled funds<sup>19</sup>. This criterion is insufficient, as it does not apply to highly diversified extraction companies even if they are expanding their tar sands production. But the major problem is that regardless of the exclusion, ESG funds represent well under 3% of BlackRock's \$9 trillion under management. All other funds face no exclusion and expose BlackRock massively to the sector.

## Our key findings on BlackRock



# WHY BLACKROCK SHOULD EXCLUDE ENBRIDGE

## A business model from the old days

Enbridge Inc. is a company specializing in oil and gas pipelines, with limited revenues and investments in other sectors, as evidenced by its latest annual report. What is highly worrying is that Enbridge's current and planned operations are concentrated in North America and relate to unconventional, tar sands and shale oil and gas reserves, which are among the riskiest activities within the oil and gas sector. Enbridge's capital expenditures are the perfect illustration of the company's unwillingness to engage in the energy transition, as oil and gas represent more than 97% of the company's investments in 2019 and renewables less than 0.5%, with an absolute spend on renewables that has actually declined over the last three years. The oil giant relies massively<sup>20</sup> on financing from investments banks and services from investment firms to complete its massive infrastructure projects and cash needs. In 2020, the majority of the company's growth projects<sup>21</sup> are still related to oil and gas projects, which represent 82% of total estimated expenditures.

## The Line 3 pipeline

The Canadian oil giant has a track record of oil spills<sup>22</sup> and Indigenous rights violations. The company has been pushing for years to build the massive Line 3 pipeline in Northern Minnesota, to take oil from Canada's tar sands region to Superior, Wisconsin. After six years of opposition to the project by tribal nations, community and environmental groups<sup>23</sup>, Enbridge started construction in December 2020, despite COVID risks, legal challenges and sustained Indigenous-led opposition to the project. A recent report<sup>24</sup> on the carbon impacts of Line 3 found that the construction would add 193 million tons of greenhouse gases to the atmosphere annually, with a yearly emissions impact equivalent to 50 new coal-fired power plants. According to Honor The Earth<sup>25</sup>, this project violates the treaty rights of the Anishinaabeg by endangering critical natural and cultural resources.

## BlackRock and Enbridge

BlackRock's investments in Enbridge add up to \$1.2 billion, as of December 2020, consisting of \$0.8bn through bond holdings and the rest via shares in the company.

# OUR DEMANDS

**B**lackRock lags far behind other financial institutions when it comes to tackling climate change through the adoption of fossil fuel engagement and exclusion policies. When a growing number of financial institutions are adopting exclusion policies covering many unconventional fossil fuels – tar sands, shale oil and gas and Arctic drilling – on top of a comprehensive approach to exit the coal sector, **BlackRock has only an extremely weak sector policy on coal<sup>26</sup>**. Currently, BlackRock's exclusion of mining companies generating more than 25% of their revenues from coal only covers 17% of the coal industry and is applied to a mere third of its assets under management. **Along with coal, tar sands have been one of the first fossil fuels tackled by climate-conscious financial institutions, but BlackRock has yet to adopt a policy on tar sands.** More than 100 private financial institutions have adopted oil and gas exclusion policies – 90% of which cover tar sands – and preliminary research by Reclaim Finance found that more than 50% of these policies have been adopted by asset owners or asset managers, such as AXA IM, Amundi, BNP Paribas AM, Metlife, Nordea and Zurich. **The road to net zero for BlackRock requires the quick adoption of a tar sands exclusion policy, including the commitments outlined below.**

## On BlackRock's active portfolio:

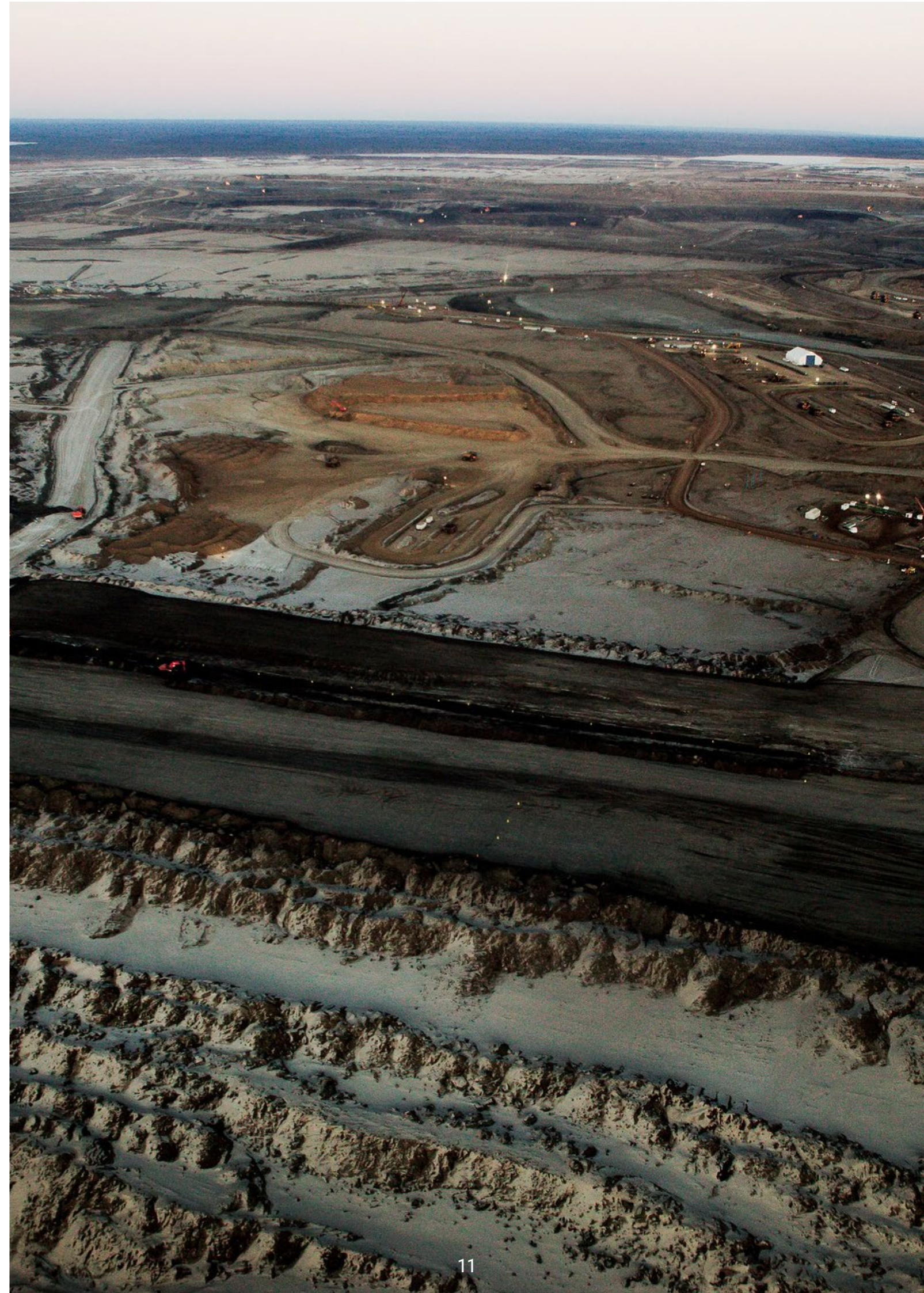
- Align with best practices and **stop investing in companies that generate more than 5% of their revenues from tar sands** (across the entire value chain, i.e., extraction, processing, refining or transportation activities) – or have **more than 5% of their oil and gas reserves in tar sands**.
- Divest from companies that are expanding the tar sands sector through the opening of tar sands reserves or building of tar sands-related infrastructures, such as pipelines.

## On BlackRock's passive portfolio:

- At a minimum, commit **not to launch any new product<sup>27</sup>** that would include companies above the 5% threshold described above or companies expanding the tar sands sector.
- Offer **climate friendly funds**, based on the criteria described above regarding tar sands companies, as the default option for all clients and investors across all product offerings.
- Regarding companies invested via existing index funds and products, **identify tar sands developers to ensure these companies are monitored and BlackRock votes against management** as soon as this year, unless the company commits to a net zero target and thus to immediately cease expansion plans in the tar sands sector.

Beyond coal and tar sands, **BlackRock must act on the fact that our carbon budget no longer allows us to develop new fossil fuel projects. As the death toll and destruction caused by unprecedented floods, droughts, fires and storms increases from year to year, BlackRock must no longer tolerate and invest in companies that keep exploring and opening new fossil fuels projects, starting with coal and unconventional oil and gas projects.** This would be the very least we could expect from the world's biggest asset manager, let alone one which has recently committed to achieve carbon neutrality by 2050.

In the long run, BlackRock should adopt a policy that would **restrict new investments to companies that have adopted transparent, asset-based phase-out plans that lead to an exit of the fossil fuel industry no later than 2050.** Furthermore, exiting the fossil fuel industry alone will not suffice to save the climate; BlackRock should also **adopt policies which banish deforestation and biodiversity-loss, and which ensure the protection of human rights** throughout its portfolios.



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27. Unless a client has mandated BlackRock to launch a bespoke product that would specifically require remaining invested in tar sands companies

## Credits

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To find out more about BlackRock's weak coal policy, read our '[One Year On](#)' report published in January 2021.

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Reclaim Finance is an NGO affiliated with Friends of the Earth France. It was founded in 2020 and is 100% dedicated to issues linking finance with social and climate justice. In the context of the climate emergency and biodiversity losses, one of Reclaim Finance's priorities is to accelerate the decarbonization of financial flows. Reclaim Finance exposes the climate impacts of some financial actors, denounces the most harmful practices and puts its expertise at the service of public authorities and financial stakeholders who desire to to bend existing practices to ecological imperatives.

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