

CITY OF COAL:

The Climate Crimes of UK Finance



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EXECUTIVE SUMMARY

In a major blow to the UK's reputation on climate, our explosive research shows that London is one of the world's biggest hubs for coal finance. The top five UK banks - Barclays, HSBC, Standard Chartered, NatWest and Lloyds Banking Group - provided \$56 billion to coal companies through loans and underwriting services in the two years up to October 2020. Over this period the City of London was the world's third largest source of loans for the global coal industry, behind only Wall Street and Tokyo. Meanwhile as of January 2021, UK investors held \$47 billion in shares and bonds in coal companies.

This report contrasts the almost complete lack of adequate coal policies among UK financial institutions with the situation in France, where 19 leading financial institutions have robust coal exit policies, and 26 have committed to no longer support any companies planning to develop new coal plants or mines after this year.

This report looks at the financing and investments provided by the major UK banks, insurance companies and investors in recent years to the nearly 2,800 coal companies, subsidiaries and affiliates included in the Global Coal Exit List (GCEL). These companies are involved throughout the coal value chain, from mining, coal trading and transport, to power generation and manufacturing of equipment for the coal industry.

The report makes for difficult reading for the UK's leading banks. **Barclays alone provided more than \$27 billion of lending and underwriting to GCEL companies, making it the 8th largest provider of coal finance among global banks.** HSBC ranks as the 21st largest banker of coal globally (\$15 billion) and Standard Chartered as the 33rd (\$10 billion). Taking lending on its own, Barclays ranks fifth globally, thanks to loans to major coal players such as Fortum, Duke Energy and Glencore.

As of January 2021, UK investors had invested \$47 billion in shares and bonds in coal companies. The top 10 UK investors, were responsible for 78% of that amount. **The worst offender was Legal & General with \$7.2 billion in coal investments,** followed by Standard Life Aberdeen (\$6.4 billion) and Schroders (\$5.2 billion).

Shockingly, UK financiers continue to support companies building new coal assets. In the two years up to October 2018, Standard Chartered, HSBC and Barclays collectively directed more than \$11 billion towards companies with coal power expansion plans. Standard Chartered ranks first among UK bankers of coal developers due to its significant business activities in Asia. **Among UK investors, Schroders is the worst supporter of coal developers (\$1.1 billion),** followed by Prudential plc (\$856 million) and HSBC (\$537 million).

The UK's most significant insurance provider, Lloyd's of London, adopted its first coal policy only in December 2020. Despite its late adoption, the policy remains inadequate, given that it allows new insurance cover for coal plants and thermal coal mines up to January 2022. Lloyd's is currently a potential provider of insurance coverage to the Whitehaven coal mine in England, and Adani's Carmichael project in Australia. Twenty of Lloyd's insurers have committed not to insure this latter project, surely the world's most controversial planned coal mine, but many syndicates have so far remained silent on Adani. Moreover, the Lloyd's coal policy doesn't cover coal transport infrastructure, despite the fact that such infrastructure can play a crucial part in the development of new coal mines.

Investment manager M&G is the only large UK financier with plans to exclude coal developers from their financial services. This compares with the 26 French financial institutions, including Amundi/Crédit Agricole, AXA, BNP Paribas and Société Générale, that have committed to no longer support after 2021 companies planning to develop new coal plants and mines.

The majority of UK financial institutions with coal policies exclude or plan to exclude companies with revenue or electricity production from coal that is above a specific threshold. For many UK financiers this threshold is 30% - even though the GCEL shows that many of the world's largest coal companies are major conglomerates with coal activities making up less than 30% of their business.

While the window of opportunity to limit global warming to 1.5°C is closing in just nine years, financial institutions are focusing on the adoption of long-term net zero commitments while ignoring the need to immediately stop the expansion of fossil fuels and engage in the phase-out of the oil, gas and coal sectors.

The findings of this report should serve as a wake up call to UK regulators, and financial company clients and shareholders, of the need for a renewed push to get UK financiers out of coal on a timetable aligned with 1.5°C. UK banks, insurers and asset owners and managers need by the Glasgow COP in November to adopt robust coal exit policies. The report lays out a series of measures to achieve exactly that, with a focus on zero tolerance for companies pursuing coal expansion, using the weapon of divestment.

UK Financial Institutions



INTRODUCTION

The UK Government likes to depict itself as a climate leader. More particularly, the UK intends to lead the world out of coal and fossil fuels and its Chancellor, Rishi Sunak, wants to place the UK at the forefront of green finance.¹ In many ways, the UK has succeeded in asserting this position internationally and has rhetorically backed up these ambitions.

Who, after all, could forget the famous speech given in 2015 by Mark Carney, the then-Governor of the Bank of England, calling on financial institutions to break the tragedy of the horizon?² At that time, Mark Carney was a pioneer, anticipating article four of the Paris Agreement on the absolute necessity of aligning financial flows with global emissions reduction targets, as well as the many regulatory and voluntary frameworks aimed at managing climate-related financial risks that would follow.

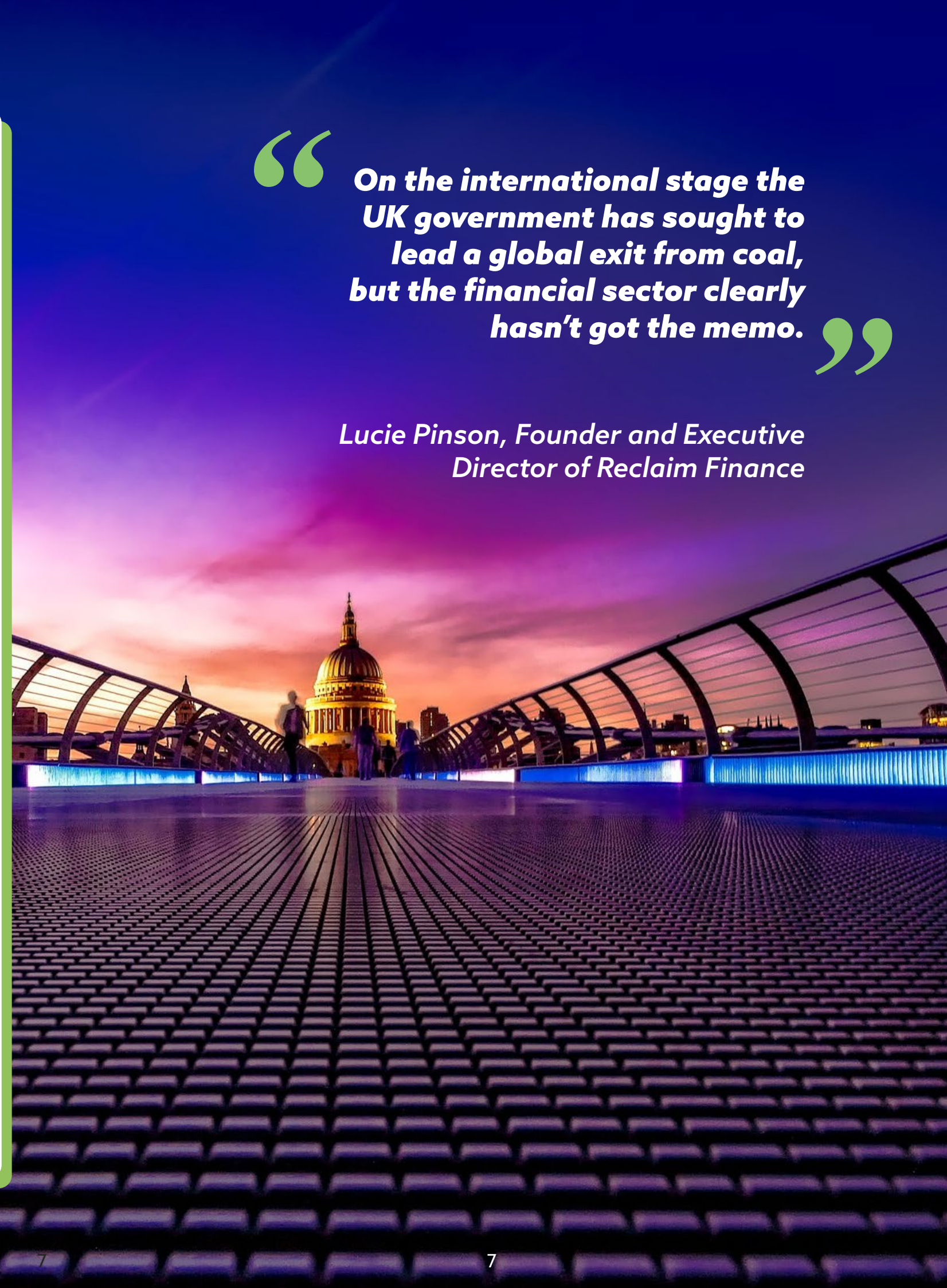
Since then, the UK has been a strong supporter of the Task Force on Climate-related Financial Disclosures. The Bank of England will be the first to run climate-related stress tests on banks and insurers. In 2017, the UK government launched the Powering Past Coal Alliance, which includes several UK financial institutions and aims at driving the world out of coal power.³ Finally, in 2021, the UK will become the first country to end all export support to fossil fuels overseas.

Unfortunately, this is only half the story. Hard facts, backed up by financial data, reveal a huge dissonance between the UK's public climate ambitions and the activities of its financial institutions. In fact, this report shows that the City of London is at the forefront of financing for oil, gas, coal and other fossil fuels. While the UK may already be considered a world leader in phasing out coal from its electricity mix, not one of its financial institutions has adopted robust coal exit policies. In fact, all of them can still provide financial services that support the expansion of the coal sector, despite scientific evidence that every new piece of coal infrastructure is inconsistent with the remaining global carbon budget.

In November 2021, the UK will host COP26, the most important climate summit since COP21. This conference must be a success. If implemented, current national climate commitments will lead us to a world well above 2°C⁴, making the adoption of more ambitious GHG emissions reduction targets a question of survival. The powerful UK financial sector must create the right conditions to make this happen. Scrubbing coal from their portfolios will not be enough to make UK financial institutions climate heroes, but it is clearly the litmus test for assessing their climate credibility. If they don't change course, they will blow the UK's COP26 climate goals wide open.

“On the international stage the UK government has sought to lead a global exit from coal, but the financial sector clearly hasn't got the memo.”

Lucie Pinson, Founder and Executive Director of Reclaim Finance



THE CITY OF LONDON: THE THIRD BIGGEST COAL FINANCIAL CENTER

The five main UK banks - Barclays, HSBC, Standard Chartered, NatWest and Lloyds Banking Group - provided \$56 billion through lending and underwriting to the coal companies in the Global Coal Exit List (GCEL) between October 2018 and October 2020. The same research has also shown that as of January 2021, UK investors had invested \$47 billion in shares and bonds in the same coal companies.⁵

The GCEL features 935 parent companies as well as over 1,800 subsidiaries and affiliates, whose activities range from coal mining, coal trading and transport to coal power generation and manufacturing of equipment for the coal industry. All in all, the companies listed in the GCEL represent 88% of the world's coal production and 85% of the world's coal-fired capacity. Over 400 financial institutions are registered users of the database and many, including AXA, refer to the list in their coal policy. The International Finance Corporation, and the French financial regulatory bodies ACPR and AMF,⁶ recommend that financial institutions use the GCEL in applying their coal policies.⁷

Barclays, Queen of Coal

Barclays, HSBC and Standard Chartered provided more than 94% of the overall financing (lending and underwriting) provided by UK banks to the coal industry between October 2018 and October 2020. **With more than \$27 billion in financing, Barclays features in the top 10 coal banks globally.** HSBC is in 21st place (\$15 billion) and Standard Chartered 33rd (\$10 billion).

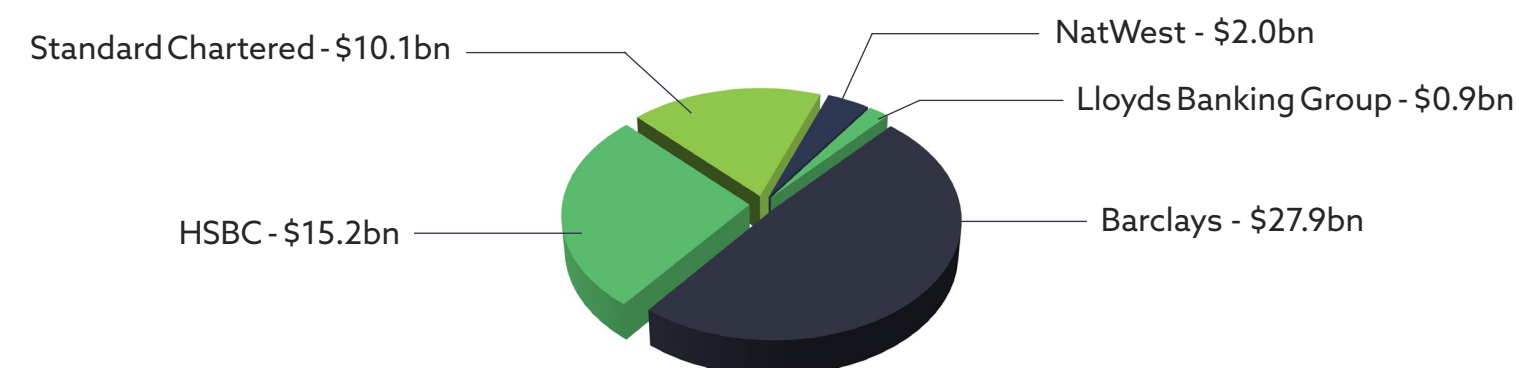
This ranking, however, understates the importance for the global coal industry of Barclays and other UK banks. Chinese banks occupy most of the top positions in the global rankings, because of their massive support to the coal industry, almost all of it through the underwriting of bonds and shares. Yet while Chinese banks almost exclusively support Chinese companies, UK banks provide financial services to coal companies all over the world.

A comparison of the City of London with other financial centers permits a better view of the key role played by UK banks in coal. UK banks collectively provided \$22 billion in loans to the coal industry between October 2018 and October 2020, making the UK the third biggest financial center providing loans to the coal industry, after Japan and the US. **Barclays ranks fifth of the biggest coal lenders**, thanks to loans to major coal players such as Fortum, Duke Energy and Glencore.

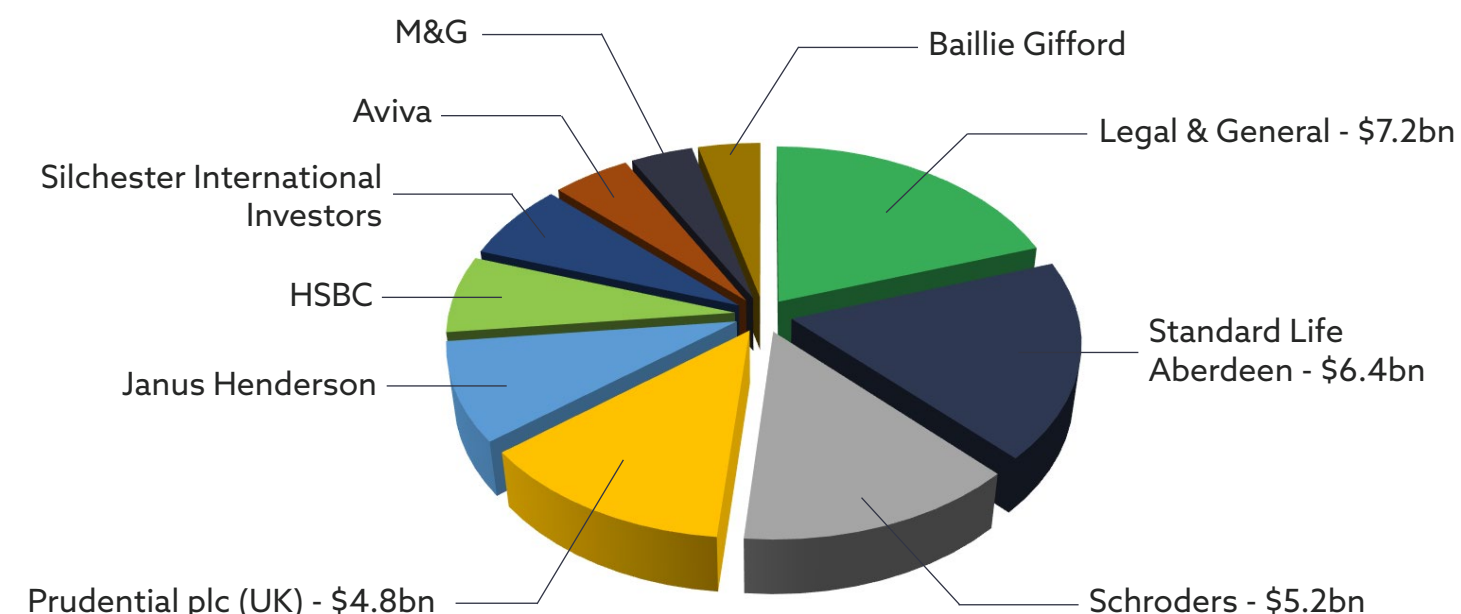
Legal & General, King of Coal

With holdings of \$ 47 billion, UK investors account for the third highest share of institutional investments in the coal industry, after the US and Japan, and the highest in Europe. 78% of that amount was concentrated in the top 10 UK investors, with L&G in first place (\$7.2 billion), followed by Standard Life Aberdeen (\$6.4 billion) and Schroders (\$5.2 billion). L&G represents close to 20% of UK investments in the coal industry, with more than 95% of its assets held in shares.

UK Banks' Financing to Coal Oct 2018- Oct 2020



Investors' Exposure to Coal January 2021



LOST IN COAL EXPANSION

While the UK government recently announced that it will end public financing for overseas fossil fuel projects in 2021,⁸ most UK institutional investors have not even stopped all direct and indirect support to the expansion of the coal sector, the most polluting of all fossil fuels.

In the two years between October 2016 and October 2018, **Standard Chartered, HSBC and Barclays collectively directed more than \$11 billion towards companies with coal power expansion plans.** Standard Chartered ranked first among UK banks due to its business activities in Asia (almost \$5 billion), just in front of HSBC (\$4 billion).

For investors' support to these coal plant developers, **Schroders ranks first among UK investors (\$1.1 billion)**, Prudential plc second (\$856 million) and HSBC third (\$537 million). Being the biggest coal investor in the UK, one would imagine Legal & General might lead this ranking. But with investments of \$158 million in this sector, they are only placed rank 10. This could be the effect of their coal policy. The policy does not exclude coal expansionists directly, but the thresholds in place are affecting 139 of the 503 coal plant developers listed on the GCEL. **Unless these institutions wake up soon, the UK-hosted COP 26 will be a source of great embarrassment, with attention inevitably focused on their polluting habits.**

A Tale of Two Cities: London lags behind Paris

Five years after COP21 in the French capital, London lags far behind Paris on coal. According to the Coal Policy Tool,⁹ **19 French financial institutions have robust coal exit policies, compared to zero UK financial institutions.** 26 French financial institutions, including Amundi/Crédit Agricole, AXA, BNP

Paribas and Société Générale have committed to no longer support after 2021 at the latest companies planning to develop new coal plants and mines.

In contrast, and despite the United Nations, scientists and the International Energy Agency issuing repeated calls since 2015 to stop building new coal plants, only one UK financial institution, M&G, has planned to exclude coal developers from their financial services (even though they will be fully excluded only in three year's time).

The majority of UK financial institutions with coal policies already exclude or plan to exclude at a stated future date companies that make more than a specific share of their revenue or electricity production from coal. Large institutions that have implemented an immediate coal exclusion criterion exclude coal power companies with 30% or more of coal exposure.¹⁰

Yet, according to the GCEL, companies generating less than 30% of their electricity and revenue from coal are planning around 166 gigawatts of new coal power capacity – approximately the equivalent of the European coal fleet.¹¹

M&G recently became the first UK financial institution to acknowledge this issue. It has adopted a policy that excludes investments in companies planning the construction of new coal mines, plants and/or infrastructure only from 2022 in developing countries, and from 2024 for companies from emerging markets.¹²

Beyond France, a small but growing number of institutions have started excluding companies because of their coal expansion plans. This includes Unicredit and Desjardins who have excluded all coal developers, as well as others, such as Allianz, Zurich, Generali, Mapfre and ATP.

Enough is enough: zero tolerance to expansion

Today, **437 companies plan to build new coal mines, power plants and infrastructure. Of these companies, 263 are planning more than 1,000 new coal-fired power plants in a total of 40 countries.** If these projects were to become a reality, they would add more than 500 gigawatts to the world's coal-fired electricity generation capacity, an increase of nearly 25%.

Each of the planned coal plants make it harder to stay below the critical 1.5°C threshold target and would exacerbate the health impact of coal and the financial risk of stranded assets. Indeed, [Carbon Tracker's research](#) shows that 42% of the global thermal coal operating fleet was unprofitable in 2018. By 2030, about half of the global thermal coal capacity could

be loss-making, and by 2040, 72% will be unprofitable. With a 2°C scenario, it is likely that investors and governments will be faced with more than \$267 billion in stranded assets. This number will be much higher under a 1.5°C scenario, in which new power plants are highly likely to become stranded assets.

If the diagnosis is clear, so is the prescription. In September 2019, the Secretary General of the United Nations, António Guterres, called for the political, economic and financial institutions gathered in New York for Climate Week to get out of coal and to stop building any new coal-fired power plants from 2020 onwards. With COP26 looming, UK financial institutions, who have a responsibility to lead by example, must immediately and systematically exclude from all financial services companies which help to build new coal projects.

Top 10 investors in companies with coal power expansion plans, January 2021

Investor	Total (mln US\$)	% of UK total
Schroders	1,122	24%
Prudential plc (UK)	856	19%
HSBC	537	12%
Standard Life Aberdeen	370	8%
Silchester International Investors	353	8%
Baillie Gifford	214	5%
M&G	187	4%
Legal & General	141	3%
Aviva	136	3%
Royal London Group	107	2%
Total	3,933	86%
All UK investors	4,59	100%

Top 3 banks exposed companies with coal power expansion plans, Oct. 2018 – Oct. 2020

Bank	Total (mln US\$)	% of UK total
Standard Chartered	4,742	42%
HSBC	4,102	37%
Barclays	1,908	17%
Total	10,752	96%
All UK banks	11,196	100%

LLOYD'S OF LONDON: STUCK ON COAL

Lloyd's of London adopted its [first coal policy](#) in December 2020, five years after the adoption of the Paris Agreement and the first coal exclusion policies from financial institutions. Despite its late adoption, the policy remains utterly insufficient to limit global warming below 1.5°C. One of the measures announced asks Lloyd's member companies to no longer provide new insurance cover for coal plants and thermal coal mines by January 2022. The timeline is far too slow, considering that new coal projects have been inconsistent with the remaining carbon budget since 2015. This delay gives insurance companies and syndicates active in the Lloyd's of London market enough time to provide the essential support coal companies need to kick start new projects.

Lloyd's is currently being targeted by the Insure Our Future campaign and Insurance Rebellion for being a potential provider of the

insurance coverage to two highly controversial planned projects: the Whitehaven coal mine in England, and Adani's Carmichael project in Australia. This latter project, which is contested by the Traditional Owners of the land, will help open up a massive new thermal coal basin, and threatens the Great Barrier Reef, endangered species habitat and local water supplies. Twenty-one of Lloyd insurers have committed not to insure the project, but many syndicates, such as Ark, Hamilton, Hiscox, Lancashire and MS Amlin, have so far remained silent on Adani.¹³

Moreover, the Lloyd's coal policy doesn't cover coal transport infrastructure, despite the fact that such infrastructure can play a crucial part in the development of new coal mines. This is the case for Adani's Carmichael project which includes as key components a railway and an export terminal.

Direct support to coal: The unfinished job for UK financial institutions

Many UK financial institutions have yet to commit not to provide direct support to coal-related infrastructure, on top of coal mines and coal plants. This is the case for HSBC, which is currently involved in a critical coal infrastructure project in Bangladesh: the Payra port,¹⁴ which would serve a new Payra Power Hub, including three new coal plants for a total capacity of 3 GW. This would have a devastating impact on surrounding communities due to the increase in air pollution and displacements.¹⁵

Meanwhile, Aviva's position on insuring coal-related infrastructure is unclear. Aviva has stated several times that it is not exposed to the coal and fossil fuel sectors through underwriting, and publicizes its commitment to no longer insure new coal projects in the UK and its membership of the Powering Past Coal Alliance. However, Aviva needs to clarify that it will not insure the development of new coal mines and new coal infrastructure such as railways and export terminals.



BANKING ON POLLUTION

HSBC

HSBC has a long and tortuous history with coal. The UK-based bank went from being the first global bank to adopt a coal policy restricting the financing of the most polluting coal plants, back in 2011, to being almost the last global European bank to fully stop the direct financing of new coal plants worldwide, without exceptions, in 2020.¹⁶ In fact, in the spring of 2018, HSBC invented an infamous new kind of loophole, exempting from their new coal exclusion three Asian countries: Vietnam, Indonesia and Bangladesh. These countries happened to be among the top countries globally planning new coal capacity and relying on foreign direct financing, creating a total loophole of close to 80GW at the time. It took two years of global campaigning to see HSBC remove this loophole at its 2020 AGM.¹⁸ **HSBC is not done with the direct financing of other coal projects since it is involved in the Payra Hub project in Bangladesh**, as mentioned above.

The latest news regarding HSBC and coal is more positive. Following the filing of a climate resolution by a coalition of investors, coordinated by ShareAction, in March 2021 HSBC's board filed its own resolution committing the bank to phase out the financing of coal power and thermal coal mining by 2030 in the EU and OECD, and by 2040 elsewhere.¹⁹ This constitutes important progress for a global bank very active in Asia, its second home, but the resolution still has to pass at the AGM, and the details of the updated coal policy, planned for the end of the year, will be crucial. **The coal phase-out deadlines will only be credible if they include the immediate exclusion of all coal developers, and a mandatory request to other clients to adopt before the end of 2022 detailed coal phase-out plans with the same deadlines.** HSBC has recently been financing many coal developers such as PLN in Indonesia (\$1.3 billion between October 2018 and October 2020), KEPCO in South Korea (\$736 million), or Power Finance Corp in India (\$372 million).



Barclays

Barclays plays a prominent role in the financing of the coal industry globally. It provided more than \$27 billion between October 2018 and October 2020 to companies in the Global Coal Exit List, ranking 8th globally in terms of overall financing, and even 5th in terms of coal lending. Despite its refocus on the UK and the US, **Barclays still provides financing to coal developers active in Asia** such as Indian companies Power Finance Corp, to which it channeled \$1.5 billion in the same time period, or Adani (\$605 million). But the bulk of its financing goes to European and US coal utilities such as Fortum (\$7.2 billion), Duke Energy (\$2.3 billion) and RWE (\$1 billion).

Barclays committed in April 2020 to no longer provide financial services to mining and power companies that generate more than 50% of their revenues from thermal coal activities and to reduce this threshold to 30% by 2025 and to 10% by 2030.²⁰ This commitment to a reduction over time is the right approach but the current and planned thresholds are far too high to have a real impact on the bank's coal portfolio. Barclays must immediately adopt more restrictive exclusion thresholds and, even more importantly, exclude all coal developers and adopt a real phase-out strategy to fully exit coal at the latest by 2030 in the EU/OECD, and 2040 worldwide.

Standard Chartered

Standard Chartered channeled \$10 billion to companies in the Global Coal Exit List between October 2018 and October 2020, with almost half of this amount (\$4.7 billion) going to coal plant developers. **This makes it the UK bank with the highest financing of/for companies that are betting most heavily against the success of the Paris Agreement**, such as Power Finance Corp in India (\$1.5 billion financing in the same period), PLN in Indonesia (\$969 million), POSCO in South Korea (\$524 million) or Adani in India (\$283 million).

Standard Chartered adopted its first coal policy aimed at ending direct financing of new coal plants in 2018 and updated its policy in 2019 to exclude mining and power companies with 100% of their EBITDA from thermal coal from 2021 onwards.²¹ Standard Chartered plans to lower this threshold to 60% by 2025, 40% by 2027 and 5% by 2030. This policy remains too weak to meet the challenges and achieve the goals set by the Paris Agreement. These thresholds will stay high for too long and they do not use the correct metric to depict the relative size of a companies coal-related operations, which sets a bad precedent.²² The policy will not have impact on Standard Chartered's financing activities before 2025. As some coal plant developers have a low or even 0% coal share of revenue, Standard Chartered could still finance them after 2030. The bank needs more immediate exclusion thresholds at the corporate level and must exclude all coal developers if it wants its coal phase-out strategy to be credible.

INVESTING IN CLIMATE HYPOCRISY

Together, UK investors are the third biggest investors in the coal industry, after the US and Japan, as defined by the Global Coal Exit List.

Legal & General Group

L&G has sent mixed signals when it comes to fighting climate change. The group is committed to achieving net zero carbon emissions by 2050 and its asset management business has started to exclude some high emitting companies from its ethical funds.²³ However, L&G's global coal exclusion policy is still very weak.²⁴ Even though its investment business has a generally good voting record for climate resolutions,²⁵ it is still supporting the most problematic companies via its 'passive' funds.²⁶

L&G has in total \$7.2 billion in coal companies, including \$141 million invested in companies that still have coal power expansion plans. These figures make **L&G its biggest UK investor in coal companies**, just ahead of Aberdeen. Biggest holdings are in BHP Group, which is among the top 100 greenhouse gas emitting companies of all time and still has coal expansion plans. The mining group has committed to selling its coal mines – but not to closing them down. It also plans to rely on its metallurgical coal business to support "attractive returns". The group has been involved in multiple scandals, including destroying an Aboriginal heritage site, and the catastrophic collapse of a tailings dam in Brazil.²⁷



Standard Life Aberdeen

Standard Life Aberdeen has recently updated its fossil fuel statement where it states that it "encourages coal phase out" and pushes fossil fuel companies to adopt strategies aligned with the Paris Agreement.²⁸ While the statement does point out that insufficient progress could mean that they "may" reduce their positions or sell all their holdings in some companies, it remains unclear what exactly is considered "insufficient progress". Despite having recently joined the Net Zero Asset Manager Initiative, the investor has still not adopted any public coal phase-out policy.

Standard Life Aberdeen has in total \$6.3 billion in coal companies including \$370 million invested in companies that still have coal power expansion plans. These figures make SLA the second biggest UK investor in coal companies. SLA's biggest coal holding is BHP Group.

Schroders

Schroders has yet to adopt a global coal phase-out policy. Even though it recently updated its fund-level disclosure to mention the exclusion criteria applied, coal exclusions only apply to funds marketed as sustainable, which currently represent less than 3% of Schroders' total assets under management.

Schroders has in total \$5.2 billion in coal companies including \$1.1 billion invested in companies that still have coal power expansion plans. **These figures make Schroders the biggest UK investor in companies with such plans.** As with Legal & General and Aberdeen, Schroders' biggest holding is BHP Group.

STUCK ON COAL

We are quickly running out of time to wind down the global coal industry. According to the latest research by the Climate Analytics Research Centre, which is a benchmark for many financial institutions, the production of electricity from coal must cease by 2030 in Europe and OECD countries, and by 2040 elsewhere.²⁹

20 years to close 6,600 production units

The challenge is enormous. There are more than 6,600 coal power generation units in operation around the world. According to Pathway 1 in the IPCC's 2018 report on the consequences of 1.5°C warming, we must reduce by 78% the use of primary energy from coal between 2010 and 2030.³⁰ Coal power output in 2020 is estimated to have been roughly the same as in 2010,³¹ which means that we need immediately to start rapidly closing down coal power units.

Yet, only Nest and M&G have committed to a phase-out of coal mining and power by the necessary deadlines, with a full exit by 2030 for Nest. However, the credibility of M&G's goal is undermined by its ongoing support to companies with coal expansion plans. NatWest has also committed to a coal phase-out by 2030, but the details of this commitment are still missing. HSBC is a notable case with a pending resolution at its upcoming AGM committing the bank to phase-out exposure to coal mining and coal power (by 2030 in EU/OECD, 2040 worldwide) – but only for its banking activities and not for its investments.

No other UK financial institution has committed to exit coal in time. The UK counts nine financial institutions as members of the Powering Past Coal Alliance: Aberdeen Standard Investments; Aviva PLC; CCLA Investment Management Limited; Central Finance Board of the Methodist Church and Epworth IM; Church Commissioners for England; Church of England Pensions Board; Hermes Investment Management; Legal and General; and Schroders. As members of the Power Past Coal Alliance, they have committed to exit coal by 2030 in Europe and the OECD, and by 2050 worldwide - which is 10 years too late. Moreover, none has a robust strategy to get there. All can still support companies going in the opposition direction by building new coal assets.

Aviva has committed to exclude from 2023 companies deriving more than 5% of their revenues from coal, but with a loophole for companies which have committed to a target verified by the Science-Based Targets initiative (SBTi), which is problematic as RWE for example has an approved SBT but will continue to burn coal until 2038.

Standard Chartered will exclude companies deriving more than 5% of their EBITDA at group level from thermal coal from 2030 on. It is the only bank to use such a metric, a bad precedent as mentioned above.

Once again, UK financial institutions have failed to set an example to follow. They lag behind the 31 French financial institutions that have committed to fully exit from the coal sector.

Exclude, or engage companies towards a coal exit

Committing to no longer provide financial services for the expansion of the coal sector and adopting a coal exit date won't be enough to drive the world out of coal. It is also necessary for companies with coal assets to close them down, and not to just sell them on to an even less scrupulous company. Closing an asset such as a coal plant is not an easy thing to do. It is not only a matter of stopping burning coal, but to also support the impacted communities, assist the workers, clean up the local environment, and develop clean and sustainable sources of economic development.

Financial institutions must commit to gradually lower their exclusion criteria to bring them to zero (or at least below 5%) by 2030/2040. They must also require companies to publish a Paris-aligned and asset-based plan to close their coal plants, rather than selling them or converting them to gas or biomass. This is an essential

step for our ability to get out of coal in the time available to stay below 1.5°C of warming while not creating new sources of emissions. It is also a prerequisite for anticipating the social and economic consequences of a rapid exit from coal and for integrating as effectively as possible the issues of a just transition and the rights of workers in the sector.

No UK financial institution has explicitly integrated such measures in their engagement strategy. However, some of them, including L&G and Aviva, have in the past supported such initiatives.³³ They must now include these measures in their explicit demands to all coal companies remaining in their portfolios.

Some global players have already done so.³⁴ AXA and Crédit Agricole / Amundi both request companies to adopt a coal exit plan, for example. Other financial institutions even make such a requirement mandatory, such as BNP Paribas, Société Générale, UniCredit and Ostrum AM. Most of them have given companies until the end of 2021 to produce such a coal exit plan..

Setting a bad example: the case of Drax

The Drax power station, once the largest coal plant in the UK, provides an example of a coal phase-out which has been poorly implemented. Four out of the six generating units of the plant were converted to biomass,³⁵ which means they produce more CO2 emissions per kWh than coal. In addition, on the grounds of their supposed benefits to the climate, the plant depends on governmental subsidies that should be used to support projects that, unlike biomass, effectively deliver emissions reductions.

NET ZERO PLEDGES RINGING HOLLOW

A growing number of financial institutions have committed to align their business with net-zero targets and limit global warming to a maximum of 1.5°C. UK financial institutions are no exception. **All UK banks and most of the biggest UK investors, with the exception of Prudential plc, Baillie Gifford and Silchester International Investors, have joined at least one of the net-zero alliances composing the recently launched Glasgow Financial Alliance for Net Zero.**³⁶ This alliance coordinates existing alliances under the UN Race to Net Zero campaign with the common goal for all participants to align their portfolios to net-zero GHG emissions by 2050 (the latest) and to define interim targets for 2030 or sooner.

- The Net Zero Asset Owner Alliance³⁷ is a group of institutional investors committing to transition their investment portfolios to net zero GHG emissions by 2050. Aviva is part of the alliance.
- The Net Zero Asset Manager Initiative³⁸ is a group of asset managers committed to supporting the goal of net zero GHG emissions by 2050. In the UK, Legal & General Investment Management, Schroders and M&G are part of the initiative.
- The Net Zero Banking Alliance³⁹ is a group of banks committed to aligning their lending and investment portfolios with net zero emissions by 2050. The five UK banks listed in the table below are part of this initiative. Standard Chartered and NatWest were already members of the Collective Commitment to Climate Action, a global banking sector initiative launched in September 2019.

These joint commitments sometimes come on top of individual net zero pledges. In 2020 both HSBC⁴⁰ and Barclays⁴¹ had announced net zero “ambitions” for 2050. Recently, Aviva has announced it will target net zero emissions for its investments by 2040.⁴² Legal and General has committed to target net zero for its proprietary investments by 2050.

Yet, while net zero announcements from UK financial institutions are multiplying, the coal sector is still attracting billions in financial support from UK banks and investors. When placed alongside the brutal reality of the climate and health impacts of the coal sector, these net zero pledges ring hollow. Some might use the metaphor of the journey to argue that what matters is the intention to achieve a long-term target. This denies the reality of the climate emergency and is an insult to the millions of people already impacted by it.

Intermediate and long-term targets covering financial institutions’ entire portfolios are useful, but only on the condition that they do not act as a trick to mask financial institutions’ unwillingness to take decisive action now. The energy transition must start now and requires an immediate end to the expansion of the fossil fuel industry and a deep reduction in our reliance on the most carbon-intensive sectors. One of the problems of these vague promises, apart from referring to a distant future, is that financial institutions very rarely specify to what extent they are planning on relying on highly problematic offsets and negative emissions technologies to achieve their goal.

Net Zero is Not Enough: Promises vs Action

Investors	Net zero pledges	Exclusion of coal developers	Adoption of a coal exclusion policy
Legal & General	✓	✗	✓
Standard Life Aberdeen	✓	✗	✗
Schroders	✓	✗	✗
Prudential plc (UK)	-	✗	✓
Janus Henderson	-	✗	✗
HSBC	✓	✗	✗
Silchester International Investors	-	✗	✗
Aviva	✓	✗	✓
M&G	✓	✓	✓
Baillie Gifford	-	✗	✗

Banks	Net zero commitments	Exclusion of coal developers from general financing	Adoption of a coal exclusion policy
Barclays	✓	✗	✓
HSBC	✓	✗	✓
Standard Chartered	✓	✗	✓
Lloyds	✓	✗	✓
Natwest	✓	✗	✓

✗ Do not meet the criteria
✓ Has a policy

✓ Has a weak policy
✓ Has a very weak policy

MYTHBUSTING THE WORST EXCUSES FOR NOT QUITTING COAL

1. Divestment doesn't work

One of the excuses most often cited by financial institutions is that exclusion policies do not work, as the holdings sold are simply bought by other investors, or that financing and other financial services will be provided by other banks and insurers. Aberdeen SI, for example, recently updated its Fossil Fuel Statement⁴³ without adding coal exclusion criteria, even for coal companies clearly not on a transition pathway, with the excuse that “[d]ivestment would simply transfer our ownership to another investor who may not take their stewardship responsibilities in relation to influencing fossil fuel companies as seriously as we do.”

This oversimplification of the demands of NGOs and civil society denies the obvious, allows financial players to postpone action in the short term, and ignores the fact that robust and effective coal exit policies combine engagement and exclusion criteria.

Firstly, there is a growing number of coal companies complaining that they are finding it increasingly difficult and expensive to secure funding and insurance coverage.⁴⁴ Goldman

Sachs has pointed several times⁴⁵ to the fact that divestment has played an important role in the recent poor financial performance of the coal sector.⁴⁶ When BlackRock implemented its coal policy, even though it was weak, it had an impact on share prices of coal companies.⁴⁷ The Goldman Sachs studies also highlighted that fossil fuel assets were increasingly at risk of becoming stranded because of the rising cost of capital,⁴⁸ as investors continue to shift capital allocation away from fossil fuel investments.

Second, the threat of walking away and divesting from a company when there is failure of an engagement process to lead to specific and meaningful change can force the company to react, as illustrated by the attempt by RWE's CEO to remain in the underwriting portfolio of AXA.⁴⁹

Finally, it should be acknowledged that not all companies are fit for engagement. Some companies are simply not interested in transitioning. Given that it is technically impossible to run a robust engagement with a high number of companies, financial institutions should divest all companies with expansion plans and strengthen their engagement with remaining coal companies.

2. Divestment is a violation of fiduciary duty

One of the common pushbacks from financial institutions is that their fiduciary duty justifies their inaction on fossil fuel divestment. This is a misinterpretation of what fiduciary means: the obligation of impartiality required by this concept should actually require investment managers to divest from fossil fuels given their high financial risks, including stranded asset risks.⁵¹ Fiduciaries must put the interests of all their beneficiaries above their own interests and must protect the assets of their beneficiaries equally, which means that it is part of the duty to consider long term returns in decision making.

It has been long proven that fossil fuel companies are a misguided long-term investment.⁵² A [study](#) by the International Energy Agency (IEA)⁵³, comparing the performance of renewable stocks with fossil fuels over the last five and ten years, found that

renewables offered investors not only higher returns, but also lower volatility. Moreover, several studies published by Carbon Tracker⁵⁴ have detailed the financial case for fossil fuel divestment and the huge financial risks related to coal companies and especially coal developers.⁵⁵

Protecting client interests requires clients to be offered by default the investment solutions the asset manager considers the most prudent and impartial. By applying a coal exclusion by default, this does not mean the asset manager is deciding for its client but rather that it considers it would fail to fulfil its duty if it did not exclude coal. Several asset managers, including AXA IM and Ostrum, apply their coal policy to third-party mandates, unless the client gives different instructions. With this approach, the client is automatically protected from coal-related risks but can still indicate to its funds managers its desire to keep investing in the coal industry.

“ **If the UK is not to remain a motor of pollution across the world, its banks and investors need to rapidly establish red lines around coal expansion and follow through with divestment whenever they are breached.** ”

Paddy McCully, Energy Transition Analyst at Reclaim Finance

10 RULES FOR GETTING OUT OF COAL

In a context of climate emergency, what the finance industry **will decide** on the road to COP26 at Glasgow will shape our collective future. One thing is clear: **financial institutions' commitments to become net zero by 2050 aren't worth the paper they're written on, if they're not accompanied by comprehensive coal exit policies** including immediate exclusion of the worst climate offenders.

With immediate effect, no direct support should be given to new or existing coal mining, power plants and infrastructure projects.

From now on, divest from and exclude from all financial services those companies which are developing new projects in mining, power plants and coal infrastructure.

With immediate effect, put a moratorium on the provision of financial services to companies which sell equipment for the construction of new coal projects or purchase existing coal assets, and lift it only after commitments emerge from these companies to cease these activities.

1

2

3

**ZERO
TOLERANCE
FOR EXPANSION**

THE EXIT STARTS NOW

4

Divestment from and exclusion from all financial services of companies which derive more than 20% of their revenues or electricity production from coal, which produce more than 10 million tonnes of coal per year or which operate coal-fired power plants with a capacity exceeding 5 gigawatts.

5

Commit to no further provision of financial services and to reducing 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 within a year a plan for the gradual closure of their coal assets, including a detailed timetable aligned with the objectives of the Paris Agreement and the dates indicated above. Suspend all financial services in the event of default 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 in anticipation of employee retraining and, conversely, not to buy back existing assets. Suspend all financial services in the absence of a commitment and exclude companies in the event of a transaction of a coal asset without a commitment by the buyer to close the asset on a pre-identified date, as indicated above.

Use the Global Coal Exit List to identify companies' exposure and development plans in the coal sector.

8

Apply the policy across all financial services and all branches of the financial institution.

9

10

Do not compromise the policy with exceptions. Only companies meeting the criteria indicated in point 6 could be exempted and receive services that are signposted and traceable to renewable energy infrastructure. The number of companies subject to such an exception must be publicly disclosed.

**THE
RIGHT
TOOLS,
THE RIGHT
APPROACH**

BEYOND COAL: A FOSSIL FREE FUTURE

While dreaming about a step-by-step transition was once possible, there is now not enough time left to tackle the subsectors of the fossil fuel industry one at a time. **Avoiding climate catastrophe not only requires a quick exit from coal but also strong measures in other GHG-intensive sectors, starting with oil and gas.**

The science is clear: limiting global warming to 1.5°C by the end of the century means stopping the exploitation of any new oil and gas reserves and the development of new polluting infrastructure today.⁵⁶ According to the Production Gap report, we need to reduce production of fossil fuels by 6% annually between now and 2030 – 3% for the gas production, 4% for the oil production. With greenhouse gas emissions needing to decrease by 7.6% a year, what is required from UK financial institutions is nothing less than immediate commitments to stop supporting new oil and gas production projects and to phase-out all support to the whole fossil fuel sector through the coming three decades.

Yet, UK financial institutions are performing no better on oil and gas than they are on coal. In fact, the situation might be worse still, with even more minimal policies.

According to the 'Banking on Climate Chaos' report,⁵⁷ published in March 2021, the five main UK banks, **HSBC, Barclays, Standard Chartered, Lloyds and Natwest have provided \$314 billion to fossil fuel companies since the adoption of the Paris Climate Agreement in December 2015.** Barclays features in the top 10 of the global ranking, HSBC in the top 15. With the other three UK banks, they collectively rank in the fifth place globally.

Both Barclays and HSBC can be found in the biggest financiers of some of the most socially and environmentally destructive sectors, ranking among the top ten banks to have financed the most tar sands, shale oil and oil and offshore drilling.

In particular, Barclays is particularly active in the financing of the shale sector, with an average annual % increase of 7.6% between 2016-2020. Whilst most banks decreased their funding for shale between 2019-2020, Barclays provided an additional \$1.06 billion, an increase of 24.32% from previous years. HSBC (ranked 16th for shale) also massively ramped up their shale financing over the period, with an average annual % increase of 55.86% (16-20), rising from \$500 million in 2017 to \$3 billion in 2020.

The most worrying trends lie in the increase of the financing to the top 100 expansion companies, with Barclays ranking 9th globally and increasing by 47% this financing from 2019 to 2020, Standard Chartered by 76% in the same timeline, and HSBC ranking 11th globally with an average growth of 37% from 2016 to 2020.

The more time we lose, the more important each step becomes. Financial institutions must immediately halt support for any expansion of the fossil fuel industry. Financial services and support should be restricted to companies that have adopted transparent, asset-based phase-out plans that lead to an exit from the fossil industry by no later than 2050. **As eyes turn towards the UK in the run up to COP26, the climate crimes of the City of London will no longer fly under the radar. The world is watching - and the very first step is to act on coal.**



Annex 1: UK financial institutions covered in this report

The following UK financial institutions are covered in the Coal Policy Tool and were considered in this report:

Banks:

- Barclays
- HSBC
- Lloyds
- Natwest NatWest - RBS
- Standard Chartered

- M&G
- NatWest – Coutts
- Royal London Asset Management
- Sarasin & Partners
- Schroders
- Silchester International Investors
- Standard Life Aberdeen - Aberdeen Standard Investments

More details on the methodology are available on [this webpage](#).

Insurers:

- Aviva
- Lloyd’s

Asset owners:

- Aviva Group
- Aviva Group Staff Pension Scheme
- Barclays Bank UK Retirement Fund (UKRF)
- BT Pension Scheme
- HSBC Bank (UK) Pension Scheme
- Legal & General (L&G)
- Lloyd’s - The Corporation of Lloyd’s
- Lloyds - Scottish Widows
- Lloyds Banking Group Pension Schemes
- Natwest Group Pension Fund
- Nest
- Prudential plc
- RSA
- St. James’s Place
- The Church of England
- Universities Superannuation Scheme (USS)

Asset managers:

- Aviva Investors Group
- Baillie Gifford
- BrightSphere
- CCLA
- Central Finance Board
- Fidelity International
- Generation
- GIB
- HSBC Global AM
- Janus Henderson
- Legal & General IM (LGIM)

Annex 2: UK Financial institutions’ exposure and financial support to coal

Top 10 UK investors’ exposure to coal January 2021 (mln \$)

Investors	Bonds	Bonds %	Shares	Shares %	Total	% of UK total
Legal & General	330	5%	6,825	95%	7,155	15%
Standard Life Aberdeen	976	15%	5,42	85%	6,397	14%
Schroders	1,217	23%	4,012	77%	5,228	11%
Prudential (UK)	2,733	57%	2,056	43%	4,789	10%
Janus Henderson	157	5%	2,982	95%	3,139	7%
HSBC	693	26%	1,981	74%	2,674	6%
Silchester International Investors		0%	2,373	100%	2,373	5%
Aviva	854	48%	927	52%	1,78	4%
M&G	549	37%	940	63%	1,489	3%
Baillie Gifford	97	7%	1,338	93%	1,434	3%
Total	7,604	21%	28,853	79%	36,458	77%
All UK investors	8,506	18%	38,753	82%	47,259	100%

Top 5 UK banks’ exposure to coal Oct. 2018- Oct. 2020 (mln \$)

Banks	Loans	Loans %	Underwriting	Underwriting %	Total	% of UK total
Barclays	13,396	48%	14,487	52%	27,884	49%
HSBC	3,594	24%	11,597	76%	15,191	27%
Standard Chartered	2,366	24%	7,721	77%	10,067	18%
NatWest	1,169	58%	857	42%	2,025	4%
Lloyds Banking Group	585	62%	359	38%	944	2%
Total	21,11	38%	35,021	62%	56,111	98%
All UK banks	21,852	38%	35,159	62%	57,011	100%

Top 10 investors in companies with coal power expansion plans, January 2021 (mln \$)

Investors	Bonds	Bonds %	Shares	Shares %	Total	% of UK total
Schroders	739	66%	383	34%	1,122	24%
Prudential plc (UK)	377	44%	479	56%	856	19%
HSBC	215	40%	322	60%	537	12%
Standard Life Aberdeen	228	62%	142	38%	370	8%
Silchester International Investors		0%	353	100%	353	8%
Baillie Gifford	4	2%	210	98%	214	5%
M&G	15	8%	172	92%	187	4%
Legal & General	19	13%	122	87%	141	3%
Aviva	35	26%	101	74%	136	3%
Royal London Group	26	24%	81	76%	107	2%
Total	1,743	44%	2,365	60%	3,933	86%
All UK investors	1,838	40%	2,759	60%	4,59	100%

Top 3 banks exposed companies with coal power expansion plans, Oct. 2018 – Oct. 2020 (mln \$)

Banks	Loans	Loans %	Underwriting	Underwriting %	Total	% of UK total
Standard Chartered	300	6%	4,441	94%	4,742	42%
HSBC	272	7%	3,829	93%	4,102	37%
Barclays	128	7%	1,78	93%	1,908	17%
Total	700	7%	10,05	93%	10,752	96%
All UK banks	1,046	9%	10,15	91%	11,196	100%

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CITY OF COAL: The Climate Crimes of UK Finance

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.

Urgewald is a non-profit environmental and human rights organization. For 25 years, Urgewald has been fighting against environmental destruction and for the rights of people harmed by corporate profit interests.

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