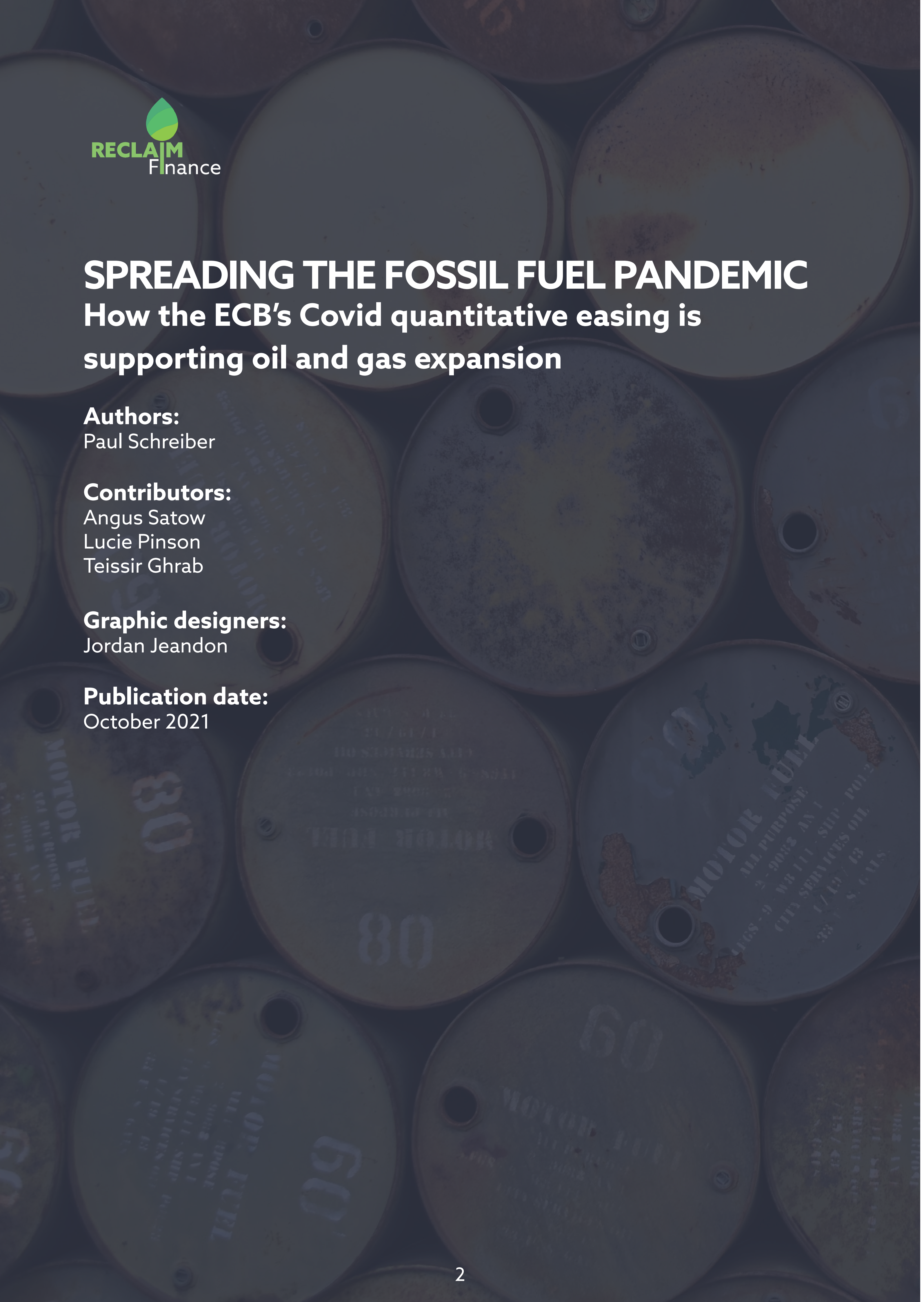
SPREADING THE FOSSIL FUEL PANDEMIC

How the ECB's Covid quantitative easing is supporting oil and gas expansion

RECLAIM Finance



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INTRODUCTION

Responding to the Covid-19 pandemic, the ECB undertook a massive program of asset purchases, pledging to buy a total 1.97 trillion euros worth of assets from 2020 to 2022. While the bulk of these purchases was directed at public sector assets, the ECB's move will also lead it to significantly increase its holdings of private sector assets.[1] From March 2020 to September 2021, its holdings under its corporate sector purchase program (CSPP) grew by 95 billion euros, about 47%.[2] Simultaneously, the ECB bought 33.7 billion euros worth of corporate bonds through its new Pandemic Emergency Purchase Program (PEPP) created in March 2020.[3] **This means that the ECB's corporate holdings rose by about 64% (128.7 billion euros) over the course of the pandemic.**

As the European Union emerges from this crisis hoping for a "green" recovery, and as the world is facing - in the words of UN Secretary General Antonio Guterres - the "code red for humanity" challenge of limiting global warming, one might rightfully ask "what did the ECB buy with these billions and what effect did it have on the environment?".

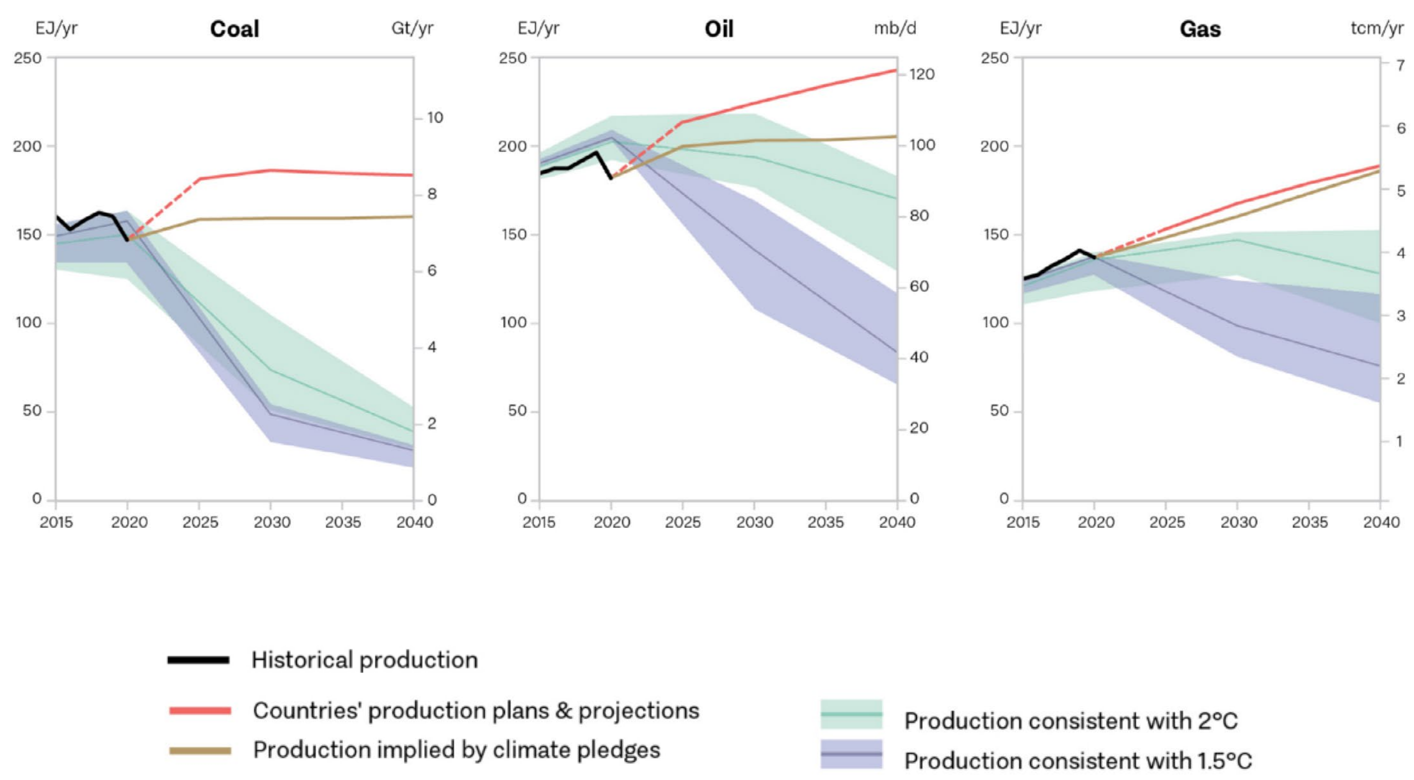
Considering the repartition of corporate purchases identified in previous research,[4] the ECB has likely bought about 15.3 billion euros of fossil fuel bonds and 80 billion euros bonds from carbon-intensive activities with its new purchases. However, the ECB repeatedly refused to provide the value of its corporate bonds or any information that would allow European citizens to evaluate the climate impact of its purchases, making it impossible to precisely identify how much it devoted to purchasing bonds from bonds of the most polluting companies. Using the only information published by the ECB, the list of bonds it holds, a study[5] carried out in April 2020 by Reclaim Finance identified 38 fossil fuel companies benefiting from these purchases. **Among them, ten companies were active in the coal sector and four are oil and gas majors: Shell, TotalEnergies (previously called Total), Repsol, Eni and OMV. In addition to being some of the most emitting companies in the world,[6] these five companies are also contributing to global oil and gas expansion, against all scientific imperatives. This research reveals that they significantly benefited from the ECB's Covid corporate asset purchases .**

1. OIL AND GAS MAJORS BUILDING BACK DIRTIER

The science is clear: consuming currently-exploited fossil fuel reserves would [largely exhaust](#) the remaining carbon budget for a 1.5 or even 2°C trajectory and fossil fuel production must be [drastically reduced by 2030](#). In fact, even if coal were to disappear overnight,[7] burning the oil and gas reserves under exploitation would emit about 475 GtCO2,[8] enough to exceed our remaining carbon budget for 1.5°C warming by as much as 75 GtCO2.[9] Furthermore, new projects could increase oil and gas reserves by 14.6%, adding at least 59 GtCO2 to the atmosphere,[10] thus overshooting the 1.5°C carbon budget by at least 33.4%. It should be noted that most of these new reserves would come from unconventional sources[11] – such as shale or tar sands oil and gas and Arctic drilling – thus maximizing environmental harm. [The UN Production Gap Report](#) states that oil and gas production should be reduced by respectively 4 and 3% a year from 2020 to 2030.[12] To summarize, and as the [International Energy Agency (IEA)](#) now acknowledges, the climate emergency demands that we immediately stop fossil fuel production projects and start reducing fossil fuel production.

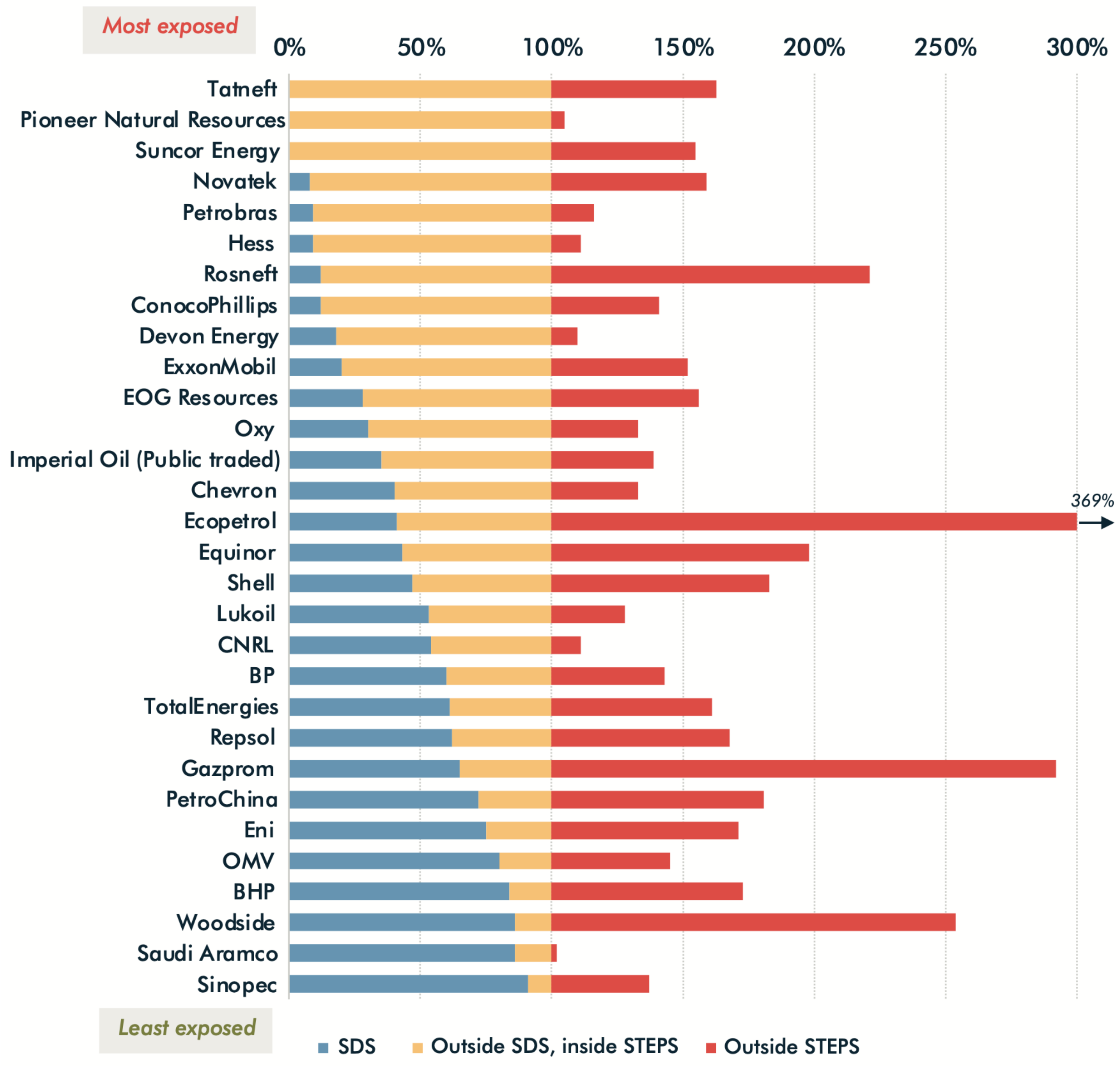
Shell, Total, Repsol, Eni and OMV are not taking that path. In fact, according to [Carbon Tracker](#), **their planned investments in oil and gas production even exceed the amount that would correspond to a 2.7°C[13] warming** by an average 65.6%.[14] Needless to say, this means that the companies' investment plans are fundamentally at odds with limiting global warming to 1.5 or even 2°C. **None of them have stopped exploration or approving new production projects** or announced credible production reduction plans.[15] Notably, Shell, TotalEnergies, Repsol and Eni are aggressively betting on liquified natural gas with **20 LNG terminal projects**,[16] despite [the IEA](#) clearly stressing that such projects are risky and not necessary. They are also **involved in unconventional oil and gas - including with major expansion prospects [in the Arctic zone](#) for TotalEnergies, Shell and Repsol – and in major sensitive expansion projects – such as in Suriname, Mozambique and East Mediterranea.**[17]

Fossil fuel production trends in different climate scenarios



Source: UN Production Gap Report 2020

Unsanctioned capex by IEA scenarios (2021-2030)- Selected companies



Notes: In red, Carbon Tracker identified the fossil fuel capex of companies that exceed what could be spent in the IEA's STEPS – a scenario that drives global warming to 2.7°C. Similarly, the yellow refers to the Capex outside of the IEA's SDS – a scenario aiming for 1.8°C - but allowed by the STEPS

2. THE ECB SPREADING THE FOSSIL FUEL CONTAGION

All these elements highlighted in part I show that an ECB that claims to take climate change seriously cannot continue to support fossil fuel developers like these five oil and gas majors mentioned above. **Yet, during the Covid pandemic, the ECB increased its support to all five oil and gas majors**.

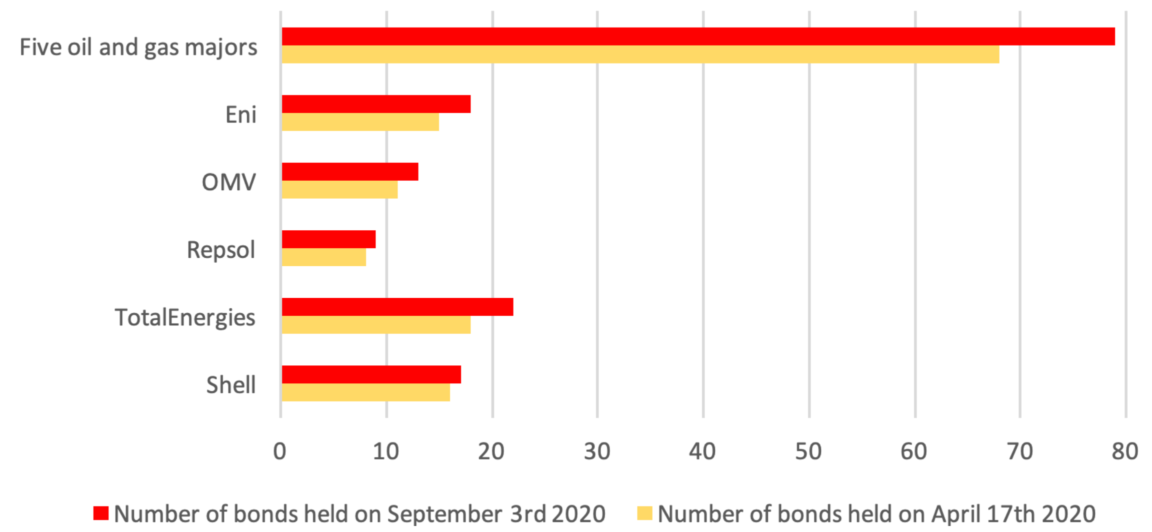
On September 3rd 2021, the ECB held 79 bonds from these companies, 11 more than on April 17th 2020 (+ 16.2%). It acquired 15 of their bonds during the pandemic, while only 4 reached maturity. This means that the ECB did much more than just maintain its support to these companies.

The ECB purchased at least two bonds of each oil and gas major during the pandemic. It **increased the number of TotalEnergies bonds it holds by 22.2% (four bonds) and of Eni bonds by 20% (three bonds). TotalEnergies therefore became the main oil and gas major benefiting from ECB's purchases, followed by Eni and Shell.**

The ECB holds bonds from TotalEnergies and Shell that won't be repaid before 2040 and 2039 respectively. Similarly, the bank will keep bonds from Repsol, OMV and Eni until at least 2033, 2034 and 2031. For the ECB, holding the long-term debt from companies whose medium and long-term strategies are a recipe for climate disaster and highly risky financially is more than hazardous. By the time these companies pay the ECB back, most of the projects they are currently building will need to be shut down before being amortized to respect climate goals, thus becoming effectively stranded.[19]

Despite the ECB adopting its first **climate roadmap in July 2021, it does not bar it from continuing to support fossil fuel developers.** Therefore the trend identified in this report is likely to continue. In this new roadmap, the ECB plans to "adapt the CSPP framework to include climate change considerations" but only says that these considerations "include the alignment of issuers with, at a minimum, EU legislation implementing the Paris agreement through climate change-related metrics or commitments of the issuers to such goals". This statement is dangerously imprecise:[20]

Evolution of the number of oil and gas majors bonds held by the ECB (From April 2020 to September 2021)



Source: Reclaim Finance, based on data from the ECB (April 17th 2020 and September 3rd 2021)

Oil and gas majors in ECB's corporate asset holdings

Company	Bonds in ECB holdings	New bonds acquired by the ECB during the pandemic (a)	Bonds held by the ECB that reached maturity during the pandemic (b)	Net increase of bonds held by the ECB during the pandemic (a-b)	Percentage increase of bonds held by the ECB during the pandemic
Shell	17	2	1	1	6.3
TotalEnergies[18]	22	4	0	4	22.2
Repsol	9	3	2	1	12.5
OMV	13	2	0	2	18.2
Eni	18	4	1	3	20.0
Total	79	15	4	11	16.2

Note: This table compares the corporate holdings – under CSPP and PEPP - of the ECB from April 17th 2020 to September 3rd 2021.
Source: Reclaim Finance, based on data from the ECB (April 17th 2020 and September 3rd 2021)

Longest coupon for oil and gas major bonds held by the ECB

Company	Shell	TotalEnergies	Repsol	OMV	Eni
Latest repayment date	2039	2040	2033	2034	2031

Source: Reclaim Finance, based on data from the ECB (September 3rd 2021)

- **The "alignment with EU legislation" is yet to be defined** and should notably include – in line with climate science and a recent IEA publication – the exclusion of any company that develops new fossil fuel project. **The fact that the ECB could simply rely on climate "commitments" from companies– such as net zero pledges – is highly problematic as they are no substitute for real-world progress.** In fact, [Shell](), [TotalEnergies](), [Eni](), [OMV]() and [Repsol]() **all declared some kind of plans to reach carbon neutrality by 2050 but – as has been explained – continue to jeopardize climate goals.**
- The bank **does not say if the inclusion of climate criteria will lead it to exclude bonds that are deemed incompatible with EU objectives and the Paris Agreement, or rather only to buy fewer of these bonds.** An efficient approach would be to exclude companies that are at odds with EU climate objectives and to further tilt purchases to align them with EU objectives.[21]
- According to the ECB's current roadmap, **the adjustment of its asset purchases won't be implemented before 2023, thus maintaining support for highly polluting companies – including oil and gas developers - for over a year.[22]**

Furthermore, **the ECB's climate adjustment proposal is incomplete and does not apply to its collateral framework,**[23] thus allowing banks to continue using them to get refinanced.[24]

CONCLUSION

The first step, excluding fossil fuel developers

It is evident that the ECB did not heed the call from more than 170 000 Europeans who called on it to stop supporting fossil fuels at the beginning of the pandemic. Disregarding their warnings, and despite a new 'climate roadmap', the ECB increased its support to oil and gas majors and is set to continue to do so, exacerbating the climate crisis and undermining the EU's "green" recovery.

In its recently-released stress-test, the ECB warns that "climate change represents a major source of systemic risk" and that "there are clear benefits to acting early" because "the short-term costs of the transition pale in comparison to the costs of unfettered climate change in the medium to long term". But, **while the ECB urges political leaders and financial institutions to take the climate crisis seriously, it continues to support companies that risk derailing the transition by developing new fossil fuel production projects.**

To be credible when talking about climate change and stop hampering the EU-wide green transition, **the ECB must immediately exclude fossil fuel developers from its corporate purchases and collateral framework**. This measure is only the first step in decarbonizing all its operations but it is a necessary one.

> ***"We must act decisively now, to keep 1.5 alive."***
>
> *António Guterres, UN Secretary-General*

References

1. Private sector assets include assets under the CSPP, the ABSPP, the CBPP3 and the PEPP. Corporate bonds are bought through the PEPP and CSPP. The report focuses solely on these assets.
2. Data from the ECB website, September 23rd 2021.
3. The total amount of purchases planned through the PEPP reach 1850 billion euros from 2020 to 2022. On September 17th 2021, total PEPP holdings rose to 1 375.6 billion euros.
4. The study Decarbonizing is easy by Y. Dafermos and al estimates that 11.9% of ECB corporate bond purchases are directed toward fossil fuel bonds while a total 62.7% go to carbon intensive activities.
5. See Quantitative easing and climate: the ECB's dirty secret.
6. According to climate accountability, Shell and Total are among the 20th biggest carbon emitters from 1965 to 2018. Shell, Total, Repsol and Eni emitted 31.8 GtCO2 from 1988 to 2015, about 3.5% of global industrial GHG emissions on this period.
7. Coal still accounts for more than 40% of energy related CO2 emissions and is the single largest source of global warming. 432 proposed coal mines would increase global coal production by 30% and generate more than 5 GtCO2 every year according to the Global Energy Monitor.
8. Calculation based on data from Rystad Energy and emission calculation method from Kjell Kühne, Energy Research & Social Science, Volume 79, September 2021.
9. In its AR6 report, the IPCC estimates that the remaining carbon budget for having a 67% chance to limit global warming to 1.5°C is about 400 GtCO2.
10. Calculation based on data from Rystad Energy and emission calculation method from Kjell Kühne, Energy Research & Social Science, Volume 79, September 2021. This number is based on this assumption that all new reserves are gas reserves and therefore provides a very conservative estimate. As new reserves are divided between oil and gas, the emission potential could be far greater.
11. According to the Stockholm Environmental Institute, "onshore unconventional development drives 71% of the projected increase in annual oil production, and 67% of the projected increase for gas, with offshore conventional development primarily accounting for the rest". This data might have evolved due to the Covid pandemic.
12. Because production has not followed that trend in 2020-2021, this decrease would be even higher. A study in Nature indicates that nearly 60% of global oil and gas reserves and 90% of coal must remain unextracted to keep within a 1.5° C carbon budget.
13. Carbon Tracker's analysis is based on the IEA's STEPS scenario.
14. Respectively 83% for Shell, 61% for TotalEnergies, 68% for Repsol, 71% for Eni and 45% for OMV.
15. See the report Big Oil Reality Check, from Oil Change International.
16. According to data from the Global Energy Monitor's Global Fossil Infrastructure tracker, the LNG projects are divided as follow: 10 for TotalEnergies, 5 for Shell, 3 for Eni and 2 for Repsol. Furthermore, Shell is planning 6 gas pipeline projects and one NGL pipeline project. OMV is involved in the Nord Stream 2 pipeline.
17. The impact of these major projects are detailed in the report Five Years Lost from Urgewald and its partners.
18. Bonds are from Total Capital SA and Total Infrastructures Gaz France.
19. See the report Fossil fuel assets 'the new subprimes'? by Reclaim Finance and al.
20. A detailed analysis of the ECB's climate roadmap is available on Reclaim Finance's website. Reclaim Finance, Greenpeace EU and the Koala Kollektiv also provided clear recommendations to leverage the ECB's roadmap, and notably to exclude major fossil fuel companies from its asset purchases and collateral framework.
21. See Reclaim Finance's analysis and recommendations on the Bank of England's framework for an example of what an efficient approach to decarbonizing asset purchases could look like.
22. The ECB will start implementing the greening of its corporate asset purchases mid-2023. However, this policy won't be fully effective before 2024 according to the ECB's own climate roadmap.
23. The necessity of greening the ECB's collateral framework has notably been highlighted in a report by Yannis Dafermos et al, "Greening the Eurosystem collateral framework". The report finds that carbon-intensive companies issue 59% of the corporate bonds that the ECB accepts as collateral. It highlights that the average haircut in noncarbon intensive sectors (13.93%) is demonstrably higher than carbon-intensive sectors, including fossil fuel companies (13.33%), energy-intensive companies (11.03%), non-renewable utilities (13.36%) and companies that engage in carbon intensive transportation (10.27%).
24. See Reclaim Finance's analysis of the ECB's climate roadmap and recommendations to the ECB.

Credits

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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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