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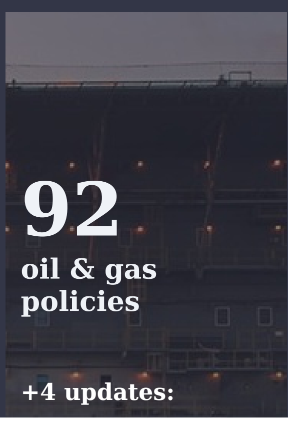
A new year begins, and 2023 ended on a bittersweet note. COP28 concluded with an imperfect commitment to transition away from fossil fuels and failed to address any short-term issues. Not surprisingly, how to make private finance work for the climate - for a change - was only discussed on the sidelines. Yet, among the few developments during COP28 to be welcomed are a France-led initiative - the Coal Transition Accelerator - to stop investment into new coal projects and speed up existing coal plants retirement, as well as its call for differentiated rates in order to raise the cost of capital for fossil activities and encourage the financing of sustainable activities. These two public interventions would be more than welcome as a strong incitement to the private financial sector to act more swiftly on climate issues.

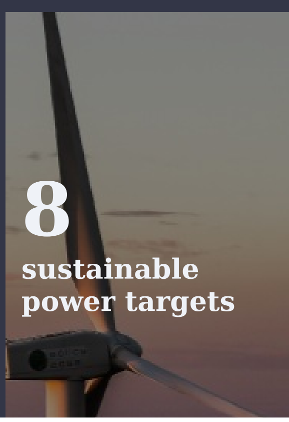
Because the situation is concerning. Despite the growing urgency to align financial flows with a 1.5°C trajectory, 2023 saw a slowdown in the adoption of fossil fuel sector policies - with hardly 80 new commitments in 2023, compared to over 180 in 2022 - and perhaps more worrying, a slowdown of robust policies. Most have failed to address the urgent matter: stopping the development of new fossil fuel projects, with banks in particular lagging behind insurers and investors. Only one of the handful of 2023 policies restricting support to oil and gas expanders came from a bank. The state of affairs is not shinier on coal. While banking heavyweight Bank of America might have backpedaled on already weak restrictions, Asian banks are still at square one: a new report by BankTrack shows that half of the major banks still have no policy on coal, leaving the door open to funding the sector’s expansion on the continent.

Several reasons could be found. In addition to the anti-ESG movement brewing in the US and the geopolitical context, the debate has shifted to the realm of decarbonization targets, which have emerged as the preferred indicators of climate action for financial institutions. While targets are useful tools, they are just one of the necessary components of transition plans, which must also include alignment targets as well as engagement policies, and sectoral policies that end support for companies that are expanding fossil fuel production and use. Let us work towards these goals in 2024.

Noam-Pierre Werlé, Policy Analyst at Reclaim Finance

New policies & updates





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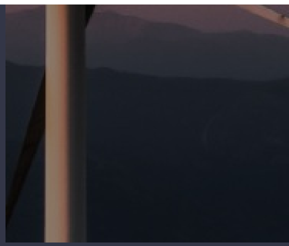

Focus on liquefied natural gas (LNG)

In 2022, the International Energy Agency (IEA) first stated that there was no room for new oil and gas midstream infrastructure if the world should reach net zero in 2050. This statement points at liquefied natural gas (LNG), the expansion of which is incompatible with the 1.5°C objective, and a threat to the climate, the environment and local communities. Still, it is going strong and backed by financial institutions.

What is LNG?

Liquefied natural gas is a product resulting from the highly energy-intensive process of cooling fossil gas to about -160°C. liquefaction of fossil gas in order to transport it. Belonging to the midstream part of the gas value chain, the liquefaction process makes a given volume of gas fit into a space 600 times smaller; it is used to drastically increase the amount of gas a carrier can store and transport overseas. Once at shore, it is processed through a regasification unit where it is brought back to standard pressure and temperature conditions, and evaporates again. It is then injected into the gas distribution network. LNG can sometimes be kept at liquid state to be used as a fuel.

Why is it expanding so fast?

Since the post-pandemic energy crisis and even more since the war in Ukraine, LNG has been booming. Worldwide, new import and export terminals are being proposed at an unprecedented pace, despite experts, including the IEA, showing that it would not be a short-term solution but a long-term issue. These developments could lead us to overshoot the IEA’s net zero pathway by almost 2 $GtCO_2$, about five times the CO_2 volume that France emitted in 2022. All this supply will also exceed demand. [Financial institutions are backing this expansion], either financing LNG projects directly or companies carrying out new projects.

What should financial institutions do?

As LNG gets bigger, the financial sector seeks bigger profits. Among top banks, only nine have policies in some way tackling LNG, leaving room to the vast majority to finance new facilities. These nine policies mostly consist of project-level restrictions ending support to a minority of terminals, for example those directly associated with new fields, which is far from what would be needed to fully align with the science. Financial institutions should urgently cease their support of all new LNG projects and companies developing them.

[Find out more]

Latest news

ING shows the way for steel decarbonization.

The Dutch bank has become the first major

bank to announce stopping dedicated finance for new and expanding unabated steel blast furnaces, as well as new and expanding coking (metallurgical) coal mines. **Read more**

Financial institutions targets are neither ambitious nor transparent enough.

The first conclusions drawn from the Glasgow Financial Alliances for Net Zero (GFANZ) are practices, as the design of many decarbonization targets is deeply flawed. **Read more**

Need some (more) clarification on what counts as sustainable energy?

Read our technology factsheets on bioenergy, energy storage, hydrogen and CCUS in power. **Read more**

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