April, 2024 Issue #6

Edito

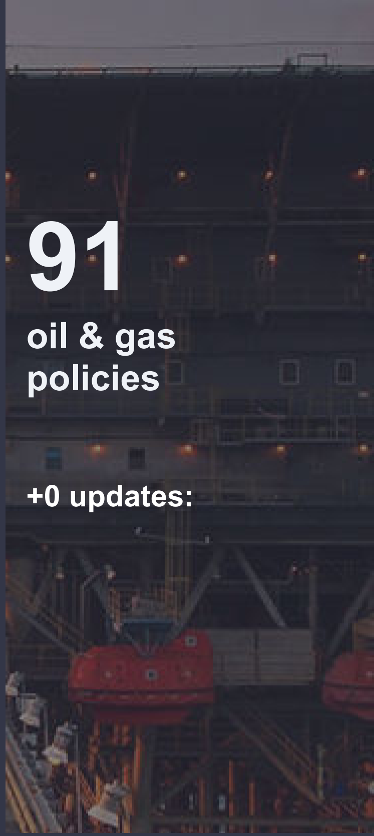
Banks' announcements can sometimes defy expectations. Even though they often come up with copy-cat commitments, from time to time financial institutions may try to outplay their peers. Royal Bank of Canada (RBC) appears to have done just that. Against a backdrop of anti-climate justice politics, RBC has become the first top North American bank to adopt a financial target dedicated to low-carbon energy. This comes at a time when its counterpart, the Bank of Montreal, has chosen to downgrade the coal policy for its US subsidiary to avoid a boycott in West Virginia, USA. Moreover, RBC's new targets don't include CO_2 capture and storage technologies - which is pretty good news. Less positively, the bank has yet to address the flip side of the coin: ending its support to fossil fuel expansion.

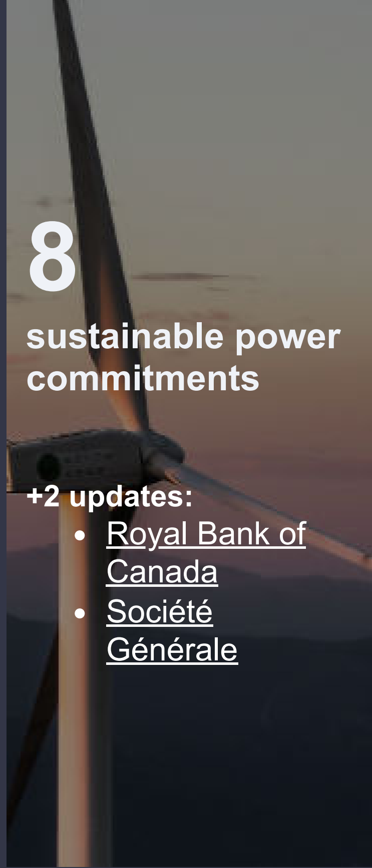
Nor has this issue been adequately addressed on the other side of the Atlantic, including in France, which likes to claim to be ahead of the game on energy and climate issues. French investors are more advanced than their peers in other parts of the world: 20 financial players with close to two trillion dollars under management, have adopted restrictions on their finance for companies developing oil and gas. However, there is scope to still step up their ambitions, especially among the investment branches of large French banking groups including BNP Paribas, Crédit Agricole and Natixis. But there should by now be a consensus among the financial institutions which, some years ago, helped pave the way for coal-free finance, that action is also needed to address oil and gas expansion.

Again in Europe, another in-depth look into financial data shows that liquified natural gas (LNG) terminals in Europe are backed by private equity firms. While some traditional European institutions have started to turn away from LNG export financing, this has been cautiously, and without taking measures to restrict finance for regasification. Major private equity firms are in fact even worse than traditional financial institutions as none have introduced science-based policies excluding these projects, which lock Europe into a high carbon future. In other words, the climate movement now has a double fight to win on LNG, against traditional institutions and against private equity.

Noam-Pierre Werlé, Policy Analyst at Reclaim Finance

New policies & updates





Focus on the policies of French investors

French investors are at a crossroads. Asset managers and asset owners can either choose to call, once and for all, for the end of support to oil and gas expansion, or to maintain a *status quo* at the risk of damaging their status as pioneers in climate finance.

Where is Paris standing in terms of climate commitments?

There are a number of financial institutions in France that are at the forefront of responsible investment practices, with some even starting to take action against companies expanding oil and gas. Of the 27 asset managers analyzed in this article, 9 have restricted their investments in hydrocarbon expansion. This share is even higher for asset owners, with 11 institutions out of 20 immediately addressing investments in companies expanding oil and gas activities. But a lot remains to be done, even in France, where financial institutions paved the way to phase out coal at the end of the 2010s, driven by political pressure.

In November 2023, the French government announced a remodeling of the state-owned label for socially responsible investment (SRI), with a batch of new criteria for asset managers to comply with. One of these outlaws the presence of companies expanding fossil fuels in funds from the SRI label. It is yet more proof that this should be a red line for all sector policies to guarantee conformity with climate science. This exclusion rule should apply to all ESG funds claiming to be sustainable or socially responsible.

What is left to be done for these investors?

Even though a certain number of investors have introduced restrictions for companies responsible for upstream expansion (i.e. the development of new oil and gas exploration and production projects), only a handful have extended this commitment to midstream oil and gas, which would include companies developing new LNG terminals. Only two asset managers (Mirova, Tikehau Capital) and three asset owners (Ircantec, MACSF, Suravenir) have made such a commitment which, because it is essential to deliver on the objective of limiting global temperature rise to 1.5°C, should already be widespread among French investors.

Those with the lowest level of ambition must now take action against oil and gas expansion, and this can be achieved through exclusion but also engagement. Asset managers should take advantage of their voting rights to sanction companies at their AGMs by voting against Say on Climate (see Woodside as an example) and routine resolutions if they continue to develop oil and gas projects. Similarly, asset owners must influence the practices of the asset managers they collaborate with by requiring that they commit to more climate-compliant investment criteria.

Find out more on asset owners

Find out more on asset managers

Latest news

Investors and banks should give up on TotalEnergies' bonds

With bonds accounting for close to 68% of TotalEnergies' financing from 2016 - 2022, the French oil & gas major relies heavily on the willingness of investors to buy these securities and of banks to underwrite them. All of the financial institutions supporting TotalEnergies have yet to introduce restrictions on their investment and underwriting to companies expanding oil and gas. **Read more**

Thoughts on the AGM season to come

Reclaim Finance shines a light on Engie and ArcelorMittal and calls on their shareholders to sanction them for their lack of adequate transition plans. Engie's strategy, which still relies on gas expansion, and ArcelorMittal's coal-based steel business are not compatible with climate science, and investors must use their voting rights to say it out loud. **Read more here and here.**

Resources

Coal POLICY TRACKER

Discover

Oil & Gas POLICY TRACKER

Discover

Sustainable Power POLICY TRACKER

Discover

Take action!

Find out more about our recommendations for financial institutions to adopt robust fossil fuel policies.

Reclaim Finance

You can contact us at research@reclaimfinance.org